S. Hrg. 98-1069

# OPPOSING FURTHER EXPANSION OF CARGO PREFERENCE

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## HEARING

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

**S. Con. Res. 56**

EXPRESSING THE SENSE OF CONGRESS IN OPPOSITION TO FURTHER EXPANSION OF CARGO PREFERENCE REQUIREMENTS

JUNE 27, 1984

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# OPPOSING FURTHER EXPANSION OF CARGO PREFERENCE

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## WEDNESDAY, JUNE 27, 1984

U.S. Senate,
Committee on Commerce, Science,
and Transportation,
Subcommittee on Merchant Marine,
*Washington, DC.*

The committee met, pursuant to notice, at 10:15 a.m., in room SR-253, Russell Building, Hon. Ted Stevens (chairman of the subcommittee) presiding:

Staff members assigned to this hearing: David Dye and Peter Friedmann, staff counsels; and John D. Hardy, minority staff counsel.

## OPENING STATEMENT BY SENATOR STEVENS

Senator Stevens. Today the Merchant Marine Subcommittee will hear testimony on Senate Concurrent Resolution 56, which would express the sense to the Congress that further expansion of cargo preference requirements, whether for commercial or other trade is not in the interest of the United States and should not be imposed.

Last year this subcommittee held 2 days of hearings on a series of cargo preference measures including S. 1624, which would reserve up to 20 percent of commercial cargoes for U.S.-flag vessels.

Currently commercial cargoes are not subject to cargo preference laws. Today's hearing is an extension of the debate generated by these bills.

Furthermore, it should be noted that Senate Concurrent Resolution 56 would also limit the extension of present laws reserving all or a portion of Government owned or financed cargoes for U.S.-flag vessels. Government cargoes account for over one-third of all U.S.-flag cargoes and are therefore extremely important to U.S.-flag carriers.

We have a number of witnesses today from the agricultural industry, who undoubtedly share a common concern about preserving expanding agricultural exports. We also have a number of witnesses from the maritime shipping and shipbuilding industry who share a common concern for preserving those industries in the face of the worst industry depression in over 50 years.

Today's inquiry will hopefully increase our understanding of the complex economic issues facing both of these vital industries. It is unlikely that we will be able to resolve all of them in this forum. However, it is our hope that both our agricultural and maritime industries will use this opportunity to carry forward a new dialog aimed at finding ways to ensure the mutual prosperity and that of our Nation.

Senator Kassebaum, do you have an opening statement?

## OPENING STATEMENT BY SENATOR KASSEBAUM

Senator **Kassebaum**. Thank you, very much, Mr. Chairman. I appreciate it and I would just like to say I am very pleased you are calling this hearing because it is a subject of great interest to those of us who are representing largely agricultural States in particular.

The current cargo preference law requires that U.S.-flag vessels carry 50 percent of all Government-owned or concessionally financed cargo. This applies whenever the United States buys goods; provides goods without charge or without adequate compensation; advances money or credit; or guarantees the convertibility of foreign currency.

My concern is that this is particularly applicable to agricultural shipments. Shipments under Public Law 480 donations and long-term concessional loans and all AID loans and grants must travel on U.S.-flag ships. The cargo preference laws also pertain to the Department of Energy's strategic oil movements.

The economic stability of U.S. agriculture and other industries is dependent on competitive international trade. Transportation costs are a major factor in that export trade competition. It has been a frustrating fact of life right now for our wheat and grain farmers that a strong U.S. dollar and world economic conditions of the past year have nearly priced their commodities out of world markets. This has been occurring when market prices for their crops have been at historically low levels and, for many producers, below their cost of producing that crop.

Continued grain exports are vital to U.S. agriculture, as they are to many other sectors of our economy. Legislation to expand cargo preference shipping restrictionns to commercial trade and to increase the use of the restrictions on Government and other shipments would severely harm efforts to maintain and expand export volume. The higher shipping rates which must be paid under cargo preference restrictions would be yet another blow for struggling farmers.

It is already clear that cargo preference reduces the effectiveness of programs initiated by the USDA to buy surplus commodities from farmers and export them to other nations in terms which they can afford.

Developing countries are unwilling or unable to pay the additional costs of shipping on U.S.-flag vessels. Consequently, the additional costs on Public Law 480 shipments which go principally to developing companies, are borne by the USDA. These costs which, in effect, subsidize the U.S. maritime industry are charged to USDA's budget and cut into the limited funds with which USDA has to operate these programs.

In fiscal 1982, for example, this surcharge on all Public Law 480 shipments amounted to almost $314 million. This could have been used to export an additional 2.9 million tons of U.S. corn or 2.5 million tons of U.S. wheat to these developing nations.

Data from the Ocean Transportation Division of the Foreign Agriculture Service and USDA indicate that nearly $98 million was spent by the Department in fiscal year 1982 to pay the difference between the rates charged by U.S. vessels over foreign vessels for the concessionally financed Public Law 480 programs, titles I and II.

This is a high price to pay for a merchant marine fleet. It seems particularly high to me because it is being paid not only by all taxpayers but specifically by farmers.

For example, studies indicate that U.S.-flag vessels cost up to 300 percent more than other carriers. That means that shipping costs under cargo preference can add about $1.50 to the cost of shipping a bushel of wheat overseas.

This is a huge premium when wheat is selling for only about $3 a bushel. As a result, we sell less wheat to other nations. That directly hurts farmers.

It certainly is of major concern to Senator Jepsen and to Senator Boschwitz, who share concern for the agricultural economy, at this point. And it directly hurts, I think, the entire export industry from the farm to the dock.

I am not suggesting that we should immediately do away with all cargo preference requirements. Senate Concurrent Resolution 56 does not suggest that. What it does say and what I strongly believe is that cargo preference requirements certainly must not be expanded to include commercial grain sale. Such a step would be a devastating blow, I think, to agriculture, which already faces severe problems.

This is not good business and it certainly is not wise policy.

Thank you very much, Mr. Chairman.

Senator **Stevens**. Thank you Senator. Senator Kasten would you like to make a statement?

## OPENING STATEMENT BY SENATOR KASTEN

Senator **Kasten**. Mr. Chairman, I would like to make a brief statement.

It seems to me for as long as I have been in Congress, and I guess that could be said of many of us, the agricultural and the maritime interests have been wrestling back and forth over this cargo preference issue.

As a Senator from the State of Wisconsin, No. 1, with the Port of Milwaukee and also shipbuilding in Sturgeon Bay and in Lake Superior and other places, and at the same time Wisconsin being one of the top corn growing States in the country, I think I understand both sides of this issue.

I support cargo preference as a means of maintaining a strong merchant marine. But at the same time right now I question whether or not this law helps the Great Lakes.

The lakes are only served today by one U.S.-flag line, that is Lykes Bros. of New Orleans. In 1983 Lykes ships made seven calls to the Great Lakes-St. Lawrence Seaway system representing less than 1 percent of the total international U.S.-flag cargo movement.

So requiring half of Federal food and grain export programs to be shipped on U.S.-flag lines is not today helping the Great Lakes. In the coming months and into next year I would like to pursue this cargo preference Great Lakes issue with my friends both in agriculture and in the maritime industry and with the members of this committee.

This is not an issue we are going to solve overnight, but it is one, I believe, we need to deal with in order to strengthen American agriculture and American maritime.

In the process, Mr. Chairman, of dealing with this issue, I am hopeful that our committee can consider the funding mechanism. I think we at least ought to consider the fact that the charges for shipments ought to be separated from the cost of purchasing the commodities.

And the example that Senator Boschwitz brought up and others, there has been interest from time to time expressed in transferring the responsibility of paying shipping charges from USDA's budget to the maritime administration. I think that this is something that we ought to consider along with a number of other possibilities.

But I look forward, Mr. Chairman, to working with members of the committee as we pursue this very difficult Great Lakes cargo preference issue.

Senator STEVENS. Before we begin I would like to note that Senator Abdnor has given me a statement for this hearing, which without objection will be inserted in the record.[1] The distinguished ranking minority member, Senator Inouye of Hawaii has an opening statement for the record.

[The statement follows:]

## OPENING STATEMENT BY SENATOR INOUYE

Every maritime nation recognizes that subsidy in one form or another is necessary, if its national flag vessels are to compete in international commerce.

Traditionally, the United States has promoted its merchant marine through direct subsidies—CDS and ODS—and indirect subsidies: Government-impelled cargo reservation schemes; and limited tax incentives. Our national interest in promoting a strong merchant marine is national defense and the development of our foreign commerce.

I believe that a review of the state of our maritime industry clearly indicates that both of these national interest objectives are in jeopardy, because the state of our merchant marine is perilous.

### SIZE OF THE PRIVATELY-OWNED ACTIVE U.S. MERCHANT FLEET

As of January 1, 1980, there were 533 ocean going vessels in the privately-owned active U.S. merchant fleet.

As of February 1, 1984, that number had declined to 420.

### SHIPYARDS

In 1980 there were 27 commercial shipyards in our active shipbuilding mobilization base, and total average employment of production workers in those yards was 94.9 thousand.

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[1] See p. 59.

By the end of 1983, there only 24 shipyards because 3 were forced to close since they had no orders.

And the total average employment of production workers was 84.7 thousand, or down 10 thousand.

Today no U.S. shipyard is building a deepwater vessel for our foreign trades.

### PERCENT OF U.S. TRADE MOVING ON FOREIGN VESSELS

(A) In 1980, 72.7 percent of our liner trades moved on foreign bottoms.

In 1983, however, foreign-flags increased their share to 75.5 percent.

(B) With respect to our total international trade—liner, dry and liquid bulk--foreign-flags carried 96.3 percent in 1980, and 94.2 percent in 1983. Although it appears we have increased our total share of cargo, the figures are misleading because the absolute tonnage carried has gone down.

### NATIONAL SECURITY

Admiral Rowden, commander of the military sealift command, recently testified before our committee that although we have a viable military sealift program:

"It does not provide for the economic shipping or national security required to sustain our economy in wartime . . . and much more needs to be done to revitalize the commercial aspects of our merchant fleet to meet the balance of the military and economic requirements for sealift in time of national emergency."

Since cargo is essential to a healthy merchant marine, I believe everyone should keep these statistics in mind before deciding on legislation which would weaken an important element of our maritime policy, and the objectives that policy is intended to achieve.

98TH CONGRESS
1ST SESSION

# S. CON. RES. 56

Expressing the sense of Congress in opposition to further expansion of cargo preference requirements.

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IN THE SENATE OF THE UNITED STATES

JULY 20 (legislative day, JULY 18), 1983

Mr. JEPSEN (for himself, Mrs. KASSEBAUM, Mr. BOSCHWITZ, Mr. ABDNOR, Mr. PERCY, Mr. GRASSLEY, Mr. QUAYLE, Mr. EAST, Mr. DANFORTH, Mr. NICKLES, and Mr. EXON) submitted the following concurrent resolution; which was referred to the Committee on Commerce, Science, and Transportation

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# CONCURRENT RESOLUTION

Expressing the sense of Congress in opposition to further expansion of cargo preference requirements.

Whereas the United States balance of merchandise trade was a negative $31,800,000,000 in 1982;

Whereas the United States share of world exports has declined from 15.4 per centum in 1970 to 13 per centum in 1982;

Whereas one out of every eight United States manufacturing jobs is for export production and 20 per centum of our industrial production is exported;

Whereas agriculture is the largest employer in the Nation providing for almost twenty-three million jobs, one million three hundred thousand of these being export related;

Whereas the value of agricultural exports has dropped 18.9 per centum since 1981 and United States agricultural market share has dropped precipitously for such commodities as course grains, wheat, cotton, soybean meal and oil, rice, and poultry;

Whereas increased ocean shipping costs will negate numerous United States efforts to promote exports;

Whereas current world market conditions translate increased export prices into reduced income for domestic producers and lost United States sales abroad for such goods as agricultural products, coal, forest products, fertilizers, chemicals, ores and metals, and pulp and paper products;

Whereas increased import costs for such goods as petroleum and other bulk materials will increase energy costs and production costs for the agricultural, fertilizer, iron and steel, rubber, textile, chemical, nonferrous refining, and paper industries;

Whereas trade barriers have proven harmful to United States industry, labor, and consumers in the past;

Whereas world bulk shipping capacity is currently in excess and is expected to remain so for at least the next decade;

Whereas the effective United States-controlled fleet, which is controlled by United States companies and subject to requisition by the United States Government, remains a strong and competitive force in the international ocean shipping industry;

Whereas the United States merchant marine is uncompetitive in the world market with United States-flag bulk shipping costs as much as 300 per centum higher than the world average; and

Whereas ocean shipping costs comprise a significant portion of import and export costs and these costs will be increased by expansion of cargo preference requirements: Now, therefore, be it

*Resolved by the Senate (the House of Representatives concurring),* That it is the sense of Congress that further expansion of cargo preference requirements, whether for commercial or other trade, is not in the interest of the United States and should not be imposed.

Senator **Stevens**. Senator Jepsen, as the principal sponsor, I am happy to see you here this morning.

## STATEMENT OF HON. ROGER W. JEPSEN, U.S. SENATOR FROM IOWA

Senator **Jepsen**. I thank you for this opportunity to again share with you and reaffirm my opposition to the expansion of the cargo preference whether for commercial or other trade.

I hope that this committee will appreciate that I come before it today to speak not so much in opposition to the expansion of cargo preference but in support of a revitalized U.S. maritime industry.

I am confident in saying that this committee, the Congress, and the public are well aware of my personal conviction and dedication to the defense of this Nation.

Our merchant fleet must be prepared to make its vital contribution by providing adequate sealift capacity in time of war or other national emergency. We share this common goal and, Mr. Chairman, I am enthusiastically offering my support in your joint pursuit of it.

We disagree, of course, on the means to obtain this goal. I am not sure our views are so different that they can't be bridged. In fact, I am sure it is possible to work out these differences.

But, Mr. Chairman, for 60 years—for 80 years if one goes back to the Military Transportation Act of 1904—the Congress and the maritime industry has been blinded by cargo preference. After the expenditure of billions of dollars in subsidies over the years, according to the General Accounting Office, today little, if any, cargo is transported on U.S.-flag ships without Federal assistance.

Worse, according to the Congressional Research Service, cargo preference programs have contributed nothing to the promotion of the U.S. fleet that is modern, well equipped, or even capable of serving as a military auxiliary.

It appears that all cargo preference has done is given a comfortable and extended retirement to the remnants of a proven and once proud merchant marine.

Mr. Chairman, promoting the expansion of cargo preference is like whistling a one-note tune down a bottomless well. It is time to combine our energies and ideas and look elsewhere.

I sincerely hope that we haven't given up in our pursuit of the best solution, improving the U.S. fleet's ability to compete in world trade. That is the best solution.

We must work toward the day when our anchor leg ocean shipping, complements and enhances rather than burdens the international competitive position of our Nation's economic system.

Cargo preference, like its cousin domestic content, is a death wish for international trade and a death knell to agriculture. No sector of our economy has a greater stake in the free and fair international exchanges of goods and agriculture.

To intentionally by our own hand compromise the hard-earned competitive position of the most productive food producers and suppliers in the world would be tragic beyond words.

We estimate a cost of close to $130 million per year for Iowa corn and soybean farmers alone on a 20-percent cargo preference requirement. I am confident, Mr. Chairman, that the potential devastating impact of cargo preference will be well documented by those appearing before you today representing a wide spectrum of the agricultural community.

These witnesses represent millions of individuals and businesses which will ultimately bear the cost of the expansion of the cargo preference requirements.

Included in these witnesses is Mr. Varel Bailey from Iowa. He is representing the National Corn Growers. He represents them with experience, understanding perspective, and distinction. I welcome him to Washington, and I am glad he is here testifying.

I now respectfully ask that this committee give full consideration to all their views, as I know you will. Thank you, Mr. Chairman.

Senator **Stevens**. Thank you very much, Senator. This hearing is being held, as I think all should realize, as a result of the dialog you and I had on the floor last year when we reached an impasse over your amendment to the Export Administration Act which was similar to this resolution, and we agreed to pursue the matter in committee.

We are happy to do that and I think everyone should realize that we do intend to pursue this. There must be an answer here somewhere in a Nation as great as ours, that will result in the burdens, that you and your colleagues from the agricultural belt see resulting from cargo preference, being removed, and at the same time we have the climate that assures that we will maintain a viable U.S. merchant marine.

Senator Boschwitz.

## STATEMENT OF HON. RUDY BOSCHWITZ, U.S. SENATOR FROM MINNESOTA

Senator **Boschwitz**. Thank you, Mr. Chairman. I certainly agree that we should maintain a viable merchant marine, and I thank you for holding these hearings.

Some of my testimony will be repetitious of the statements of my colleagues from Kansas and Iowa, so let me summarize and also ask that the full text of my statement and the exhibits thereto be included in the record.

I want to make several points. First of all, a point that cargo preference imposes a large and unacceptable cost on the U.S. agricultural economy. Senator Jepsen has referred to that, but let me give you an example.

We lost the sale of 70,000 metric tons, which is 2,700,000 bushels of corn to Egypt. That was a sale we could have had, but the sale was sponsored by USAID, so the cargo preference rules were applied.

Shipment on a foreign flag vessel would have cost $22 a metric ton or 56 cents a bushel, but Cargill was forced to book a U.S.-flag vessel at $104 a metric ton as opposed to $22 which was $2.64 a bushel, which was 88 percent of the value of the goods. This is a low-value commodity and it made the purchase unacceptable by Egypt because they could save so much money on the freight that they could afford to obtain it elsewhere. Those are the kind of things that happen to us. Two and a half millions of bushels of corn is a significant amount.

Rather than list a whole bunch of examples, I will simply state that expanding cargo preference to include commercial and non-Government cargoes as some has suggested would really cause U.S. agriculture many, many millions, perhaps billions of dollars.

Cargo preference is an unwise use of taxpayer dollars. Senator Kassebaum has mentioned the figure of $314 million a year. Not all of that is applicable to the Public Law 480 program but a significant part of it is.

Senator Jepsen has stated the argument that I was going to make that it constitutes a form of domestic content for the U.S.-flag merchant marine and, indeed, it does.

Unfortunately, cargo preference has not had the intended result of updating the merchant fleet. I include a list of ships that are used for Public Law 480 and of that list, of the 21 U.S.-flag vessels used for Public Law 480, more than half of the 13 of the 21 were built in the 1940's.

Those ships would have been retired long ago and perhaps would have been replaced, but they are not a significant part of our merchant marine. And in the event of difficulties in whatever part of the world, ships built in the 1940's are not going to provide the answer in the case of those kind of difficulties arising, which all of us, of course, hope will not come upon this Nation.

I also ask to enclose an article from the Philadelphia Inquirer which discusses the sinking of the SS *Poet,* a ship that just disappeared about which we have talked about on the floor of the Senate a number of times. It was carrying a Public Law 480 cargo and just disappeared. It had extensive safety problems which are not connected.

I recall the story of another ship that was taken with a load of wheat or corn of some type and then scrapped upon arrival. We just haven't maintained the modern Merchant Marine because of the cargo preference requirement.

The cargo preference requirement also strains some of our trading relationships. Recently the President of Sri Lanka was here and we talked about many things together. They have very modern pneumatic grain unloading equipment which is designed for use on modern bulk vessels. But when we send in one of these ancient mariners and bring it into port, they not only risk damage to that new equipment but the difficulty of unloading also imposes yet another cost on them that they cannot bear.

So for all these types of reasons, I think the cargo preference laws as we have discussed on the floor, and I am pleased that your committee is holding hearings, really does not serve the interest of the Nation. It does not bring about a more modern merchant marine, particularly on bulk cargo where it really has all of its application.

It has little or no application in reality to cargo that goes from port to port. Rather it has application in bulk cargo, and there we are not bringing about new equipment or updating our merchant marine, we are simply penalizing ourselves, penalizing our friends, penalizing the agricultural part of our Nation's economy. It is a program that perhaps I take a little stronger view on than my colleagues.

I don't think it should be continued at all. It certainly should not be expanded. It would create great difficulties with respect to our trade. If it is to be expanded it would undermine most probably our ability to expand our agricultural trade, Mr. Chairman.

Agricultural trade has been a very bright spot in our balance of payments. For some years we were shipping three times, four times as much as we were importing in agriculture.

More recently that figure has not been quite that large a multiple, but it is still a multiple in excess of two to one and we are gaining once again in the shipment of agricultural commodities and agricultural products.

We must not hinder that trade. We must not damage it in any way, prevent it from growing through archaic rules which really cargo preference is the clearest example of.

I thank you, Mr. Chairman, for holding this hearing and ask once again that the entirety of my statement be entered into the record and thank my colleagues for coming.

I know that we express a very widely felt view, certainly in our part of the country and I think in other parts of the country as well.

[The statement follows:]

### STATEMENT OF HON. RUDY BOSCHWITZ, U.S. SENATOR FROM MINNESOTA

Mr. Chairman, I applaud you for holding this hearing. Cargo preference is a controversial subject and is thus not an easy one for Congress to deal with.

This is not the first time I have appeared before this Subcommittee to express my views. The message now, as before, is simple and straightforward:

(1) *Cargo preference imposes large and unacceptable costs on the U.S. agricultural economy.*—I need only cite the loss of a 70,000 metric ton (2.7 million bushels) sale of corn to Egypt by Cargill. This sale was sponsored by USAID, so cargo preference applied. Shipment on a foreign flag vessel would have cost $22 per metric ton ($0.56/bushel), but Cargill was forced to book a U.S.-flag vessel at a cost of $104 per metric ton (2.64/bushel). Faced with paying a freight rate 4.7 times higher than necessary (equal to 88% of the value of the corn itself), Egypt cancelled the purchase.

Rather than list more examples, I will simply state that expanding cargo preference to include commercial (non-government) cargoes as some have suggested would cost U.S. agriculture many hundreds of millions of dollars.

(2) *Cargo preference is an unwise use of taxpayers' dollars.*—We all know that government resources are limited. The cost to the government for applying cargo preference to the Public Law 480 program is around $100 million per year. Most citizens view Public Law 480 as a worthwhile program that helps to feed hungry people. Indeed, it is. They are not aware, however, of the hidden $100 million which goes to U.S. maritime interests and not to those who are physically hungry.

(3) *Cargo preference constitutes "Domestic content" for the U.S.-flag merchant marine.*—Most people support free trade and oppose protectionist legislation such as the domestic content proposal for the U.S. automobile industry. Cargo preference applies the same concept of protectionism to the U.S. maritime industry. If Congress was faced now with the choice of starting cargo preference for the first time, I doubt that such a proposal would pass. Since it has been entrenched in law for 30 years, though, it has become difficult to change.

(4) *Cargo preference encourages the existence of an outdated and inefficient merchant fleet.*—As with many industries that limp along under the burdenous umbrella of protectionism, the U.S. merchant fleet which carries agricultural preference cargoes has had little incentive to modernize. Quite the opposite has happened. Since every ship that could be kept in service has had access to guaranteed government generated cargoes, there have been incentives to keep those ships in service until long after the end of their normal life expectancy.

Table 1 lists the 21 U.S.-flag vessels used to carry Public Law 480 Title I cargoes in FY82. More than half (13) of these ships were built in the 1940's. None were built in the 1950's, one was built in the 1960's, four are from the 1970's, and three were built in the 1980's.

Old vessels are often not as dependable as newer ones. This can subject the crew to unnecessary risks. Exhibit 1 is an editorial from the Philadelphia Inquirer which discusses the sinking of the S.S. *Poet* while carrying a Public Law 480 cargo and the safety problems which exist aboard her sister ship, the S.S. *Penny*, I do not feel that it is good maritime policy to encourage ships such as the *Poet* and the *Penny* to stay in service.

It is very costly to provide employment for seamen through cargo preference. If each of the 21 ships has a crew of 40 men, the total crew would be 840. A cost of $100 million for the program works out to well over $100,000 of government cost for each crew position. It would be more cost effective for the government to leave these ships anchored in storage, pay the crews their salaries while they stay at home, and ship the P.L. 480 Title I commodities on foreign flag ships. If we did this, the crews would have the added benefit of being safer.

(5) *Cargo preference can strain our trading relationship with other countries.*—Normally we would expect to generate some goodwill by shipping U.S. commodities on U.S.-flag ships. This has not always been the case, however. For instance, Sri Lanka has modern pneumatic grain unloading equipment designed for use on modern bulk vessels. They risk damaging their equipment by trying to unload old vessels with awkwardly placed compartments. For that reason, they have tendered for Public Law 480 cargoes under protest. Clearly, our cargo preference policies are damaging our trading relationship with Sri Lanka. Are they likely to come to the U.S. for commercial purchases if their Public Law 480 experience has given them a negative impression?

(6) *Cargo preference creates unintended geographic distortions in cargo movement.*—Many of you are aware that a substantial amount of cargo worth millions of dollars has been shifted away from the Great Lakes under the Public Law 480 Title II program. This was done in the name of meeting the cargo preference requirements in spite of a large increase in taxpayer cost.

Why has this happened? The Great Lakes have an economic advantage in shipping certain processed agricultural products, so they receive a fair amount of the Title II allocations which are made on the "lowest landed cost" basis. The problem the Lakes have is that they have a very difficult time shipping 50 percent of those cargoes on U.S.-flag bottoms because there is only one U.S.-flag liner carrier which operates on the Lakes and it provides limited service. The foreign flag liner service to the Lakes is quite good.

Since it hasn't been possible to meet the 50 percent U.S. requirement, cargo has been arabitrarily diverted from the Lakes to other coastal ranges. This has meant greater unemployment among longshoremen and others involved in these shipments on the Lakes. I need not point out that unemployment in these states is far too high already. This cargo diversion is just the most recent example of the many economic distortions caused by cargo preference.

(7) *Cargo preference just doesn't work.*—Is that too bold an assertion? I think not. After all, the purpose of cargo preference is to build and maintain a strong U.S.-flag merchant fleet. In its 30 years of operation, quite the opposite has happened. In the mid-1950's the U.S. boasted the world's largest merchant marine. In 1955, the U.S. fleet totalled 3,304 vessels and accounted for 27.3 percent of the world's merchant fleet deadweight tonnage. Today the U.S. can claim only 859 ships which represent 3.6 percent of the world's deadweight tonnage.

With such a record of failure, I am amazed that maritime interests have not come forward with suggestions for new approaches to deal with the industry's problems. Instead, there have been bills introduced which seek even greater application of cargo preference. What imaginative thinking! Let's do more of what has failed so miserably over the past 3 decades!

I do not claim to be an expert on maritime policy, and I cannot now make specific suggestions about how to revitalize the merchant marine. Such experts must exist, though, and I would be interested in their recommendations. Constructive suggestions might receive the strong backing of the agricultural community.

Agricultural policy will be seeking new directions in the 1985 Farm Bill. It is no great shame to admit that some things we have done in the past—both in agricultural policy and in maritime policy—have not worked as well as had been hoped. What is needed is to recognize the problems and then go out and develop something better.

The challenge to seek better solutions faces both the Agriculture Committee and the Commerce Committee. The Agriculture Committee is getting ready to move ahead. I sincerly hope that the Commerce Committee, too, is preparing to move ahead and not back toward a greater reliance on the failed policy of cargo preference.

TABLE 1.—U.S.-FLAG VESSELS USED FOR PUBLIC LAW 480, TITLE I CARGOES, FISCAL YEAR 1982

[Excludes liner vessels and tug-barges]

| Name | Year built | Owner |
|---|---|---|
| Dry bulk vessels: | | |
| Merrimac | 1944 | Ogden Marine. |
| Traveler | 1945 | Do. |
| Star of Texas | 1982 | Falcon Carriers. |
| Pride of Texas | 1981 | Do. |
| Ultrimar | 1973 | Ultrimar Shipping. |
| California | 1946 | Atlantic Marine. |
| Point Susan | 1945 | Point Venture. |
| Point Manatee | 1944 | Point Vigilance. |
| Sugar Islander | 1973 | California & Hawaii Sugar Co. |
| Tanker vessels: | | |
| Ogden Yukon | 1973 | Ogden Marine. |
| Pennyville [1] | 1943 | Getty Oil. |
| Wilmington Getty | 1944 | Do. |
| Louisiana Getty | 1944 | Do. |
| Little Apex [1] | 1944 | Apex Tankers. |
| Pint Vail | 1964 | Point Vail Co. |
| Cove Explorer | 1945 | Cove Shipping. |
| Coastal California | 1949 | Sequoia Tankers. |
| Jade Phoenix | 1980 | Titan Shipping. |
| Bordeaux | 1945 | Trinidad Corp. |
| Golden Phoenix | 1979 | Phoenix Bulkship. |
| Concho | 1945 | Sabine Towing & Transportation. |

[1] Recently scrapped.

## S.S. PENNY: A SINKING FEELING

"They gathered in rain-swept Old Swedes Church Sunday, more than 200 who came to dedicate a plaque honoring 34 merchant sailors who were lost at sea aboard the S.S. *Poet*, October 25, 1980. The aged ship disappeared without a trace after sailing from Philadelphia with a load of government-sponsored cargo. And it would be small solace, but something, if it could be said today that those men did not die in vain.

But the folly continues. Another ship, operated by the same owner, showing the ravages of its age—40 years old—is being prepared to sail this week, also with a load of government-sponored cargo. That ship is the S.S. *Penny*, the twin of the *Poet*, and it is bad aboard the Penny indeed. Inquirer staff writer Robert Frump toured the ship at its mooring in Tampa, Florida. He found a ship so flimsy that a sounding pole lowered to measure ballast punched a hole through the hull. He found a ship that dropped its anchor, literally right off the chain, during sea trials for Coast Guard inspection. He found a crew raking the rust off the decks and maritime union officials breaking their silence about the ship's inadequate back-up equipment.

He found a ship, finally, condemned by its age, but being readied for one more voyage before a lucrative steam to the scrapyard. More than 20% of the United States' merchant fleet is, like the *Penny*, beyond 30 years old—twice the normal retirement age of merchant ships. Sixty-six American seamen have gone down aboard the rustbuckets since 1980.

Yet the folly continues. Maritime unions guard their interests, often only in competition with one another while the U.S. fleet wastes away. Shipyards fight against administration proposals to allow government-subsidized shipping lines to buy cheaper ships abroad, a measure that would expand the fleet and, thus, jobs for unemployed seamen. Ship owners (and seaman's unions) back increased cargo-preference coverage, meaning that American ships must get first crack at hauling certain cargoes, despite the fact that they charge higher rates that drive up shipping costs and, ultimately, consumer prices.

> Years of expanding cargo-preference subsidies and protective 'Build American' schemes have not strengthened the U.S. merchant fleet. They have left it crippled and rusting. They produced the tragic *Poet* and have encouraged the *Penny.* How many more seamen need die to end the folly."

Senator STEVENS. Thank you very much. We are pleased to have your testimony. If any of you would like to join me and Senator Kasten here we would be happy to have you. Thank you very much.

Our first noncongressional witnesses will be a panel: Mr. Varel Bailey, president of the National Corn Growers Association and Mr. B.B. Spratling, Jr., the chairman of the board of American Soybean Association.

I note that the gracious lady from the House is here with us now and I would ask the witnesses here, we will forgo for a moment, Mrs. Smith, we would be happy to have your statement.

## STATEMENT OF HON. VIRGINIA SMITH, U.S. REPRESENTATIVE FROM NEBRASKA

Mrs. SMITH. I appreciate that very much, Senator Stevens, and I do thank you and I certainly thank my good friend and neighbor Senator Jepsen for having this hearing. And I appreciate the opportunity to testify.

I will be very brief but I hope I may put my testimony in the record.

Senator STEVENS. Yes, Ma'am, we will put the whole thing in the record.

Mrs. SMITH. I do appreciate the fact that Senate Concurrent Resolution 56 has been introduced in the Senate. You know that in the House I introduced H.R. 136, the orginal bill, and I have 81 cosponsors. We have two bills in the House and I believe you have two over here to legislate more guaranteed cargoes for U.S. merchant marine vessels.

All of these bills represent grave threats to the exporting sector of our economy and particularly to the farmers and the service industries that are associated with agriculture.

Our agricultural exports have been fighting a losing battle. The combination of bumper crops worldwide, economic recession and third-world debt crisis, the increased value of the dollar, and uncompetitive trade practices by other exporters have all contributed to economic losses in the agricultural export sector.

Cargo preference reservation or sharing are all schemes by which commercial shippers are guaranteed business by legislative mandate without regard to cost or to economics. I and many others not only consider this approach ill-advised but downright disastrous.

It is protectionist. It is inflationary. It is bad for exports. It is bad for farmers. It is bad for jobs. It is bad for consumers.

Besides the persuasive economic evidence against cargo preference, there is a legitimate issue of human safety and reliability as an export supplier. Our cargo preference laws have led to continued use of vessels that should have been scrapped years ago.

Consider the case of the SS *Poet* which sank 3 years ago killing 34 men. The SS *Poet* was a World War II vintage ship sailing with a Government guaranteed cargo of Public Law 480 grain for Egypt.

Its only justification for existence was the revenue it could generate from one more load of Government grain.

The *Poet* is not an isolated case. Our maritime policy has fostered a merchant marine in which 38 percent of the ships are more than 20 years old and 22 percent are more than 30 years old.

More recently the SS *California*, built in 1946, was contracted by AID to carry 18,000 tons of corn to Egypt. While it was being loaded with corn in Norfolk, VA, the Coast Guard inspectors found several problems and advised the owner that it was unfit to sail until repairs were made.

The owner proposed to do just enough repairs to keep the ship afloat and send it across under tow as an unmanned barge. The *California* set sail under tow on New Year's Eve. Four months later it reached Egyptian waters.

It was towed to a spot where it would not block traffic in case it sank, and as far as I know, is still sitting there loaded with rotting corn. Our vast array of cash, credit, and cargo subsidies have so insulated the fleet from world market conditions that its costs are completely out of line with world rates.

Government cargoes have become the only cargoes carried by most flag lines. In fact, 83 percent of all U.S. exports moving on U.S.-flag ships are Government cargoes that were required to move on American ships.

It should be obvious that past efforts to stimulate the merchant marine through direct and indirect subsidies have not thwarted the bulk cargo decline. These programs in addition to present cargo preference rules have failed to stimulate U.S.-flag ship building and failed to make the U.S. fleet competitive.

I do congratulate the subcommittee and I urge you to continue your search for new and different solutions to the merchant marine decline and to stay away from the disastrous policies involved with cargo preference legislation.

And I do thank you again for the privilege of being here.

Senator STEVENS. Thank you for coming over. We appreciate your making the trip and your full statement will be printed in the record.

Mrs. SMITH. Thank you very much.

[The statement follows:]

### STATEMENT OF HON. VIRGINIA SMITH, U.S. REPRESENTATIVE FROM NEBRASKA

I thank the Chairman, Mr. Stevens, the Ranking Minority Member, Mr. Inouye, and all the Subcommittee members for holding this hearing on Senate Concurrent Resolution 56, introduced by my good friend and neighbor from Iowa, Senator Jepson. I especially thank you and Senator Jepson for allowing this time for me to testify.

This bill, S. Con. Res. 56, expresses the sense of the Senate that cargo preference is not in the national interest and should not be expanded. Its companion bill, H.J. Res. 136, introduced by myself and cosponsored by 81 other members, was formulated in response to what we see as a dangerous movement to increase cargo-preference requirements.

Specifically, H.R. 1242, H.R. 2692, S. 1616, and S. 1624, aim to legislate more guaranteed cargoes for U.S. Merchant Marine vessels. All of these bills represent grave threats to the exporting sector of our economy and in particular, farmers and the service industries associated with agriculture.

U.S. agricultural interests have been fighting a losing battle to increase our exports. The combination of bumper crops world-wide, economic recession and the third-world debt crisis, increased value of the dollar, and uncompetitive trade practices by other exporters have all contributed to economic losses in the agricultural export sector. Although the value of exports this year is expected to show improvement for the first time in two years, volume is still projected to be down slightly.

Moreover, we are losing market share for many commodities meaning that we do not enjoy a price advantage or any other advantage that would allow us to pass through additional costs caused by cargo preference.

Cargo preference, reservation, or sharing are all schemes by which commercial shippers are guaranteed business by legislative mandate without regard to cost or economics. I, and many others, not only consider this approach ill-advised, but downright disastrous. It is protectionist and inflationary, bad for exports, bad for jobs, bad for farmers, and bad for consumers.

Please let me clarify my position by stating how much I sympathize with and understand the concerns of those who are struggling to help the U.S. Merchant Marine. The sad state of the American flag-lines should be an issue of national concern. Unfortunately, the story of their decline is nothing new. Since WWII the number of US-flag vessels has dwindled steadily—especially dry-bulkers. Many of the vessels that remain are original Liberty ships from the WWII era.

Besides the persuasive economic evidence against cargo preference—which I will elaborate on later—there is a legitimate issue of human safety and reliability as an export supplier. Our cargo preference laws have led to continued use of vessels that should have been scrapped years ago.

Consider the case of the S.S. *Poet* which sank three years ago, killing 34 men. The S.S. *Poet* was a WWII vintage ship sailing with a government guaranteed cargo of P.L. 480 grain for Egypt. Its only justification for existence was the revenue it could generate from one more load of government grain with taxpayers paying the inflated prices of inefficient power plants and very high labor costs. The ship was lost at sea for ten days before the owner even reported it missing.

The *Poet* is not an isolated case. Our maritime policy has fostered a Merchant Marine in which 38% of the ships are more than 20 years old and 22% have passed age 30.

The S.S. *Penny,* sister ship to the ill-fated *Poet,* sailed from Florida recently with a cargo of AID fertilizer for Kenya. The *Penny* sailed after repairs were made in the hull from damage caused when a crew member dropped a sounding pole into the ballast tank to measure the depth. The sounding pole went right through the bottom of the ship. When the *Penny* went on recent sea trials, the Coast Guard ordered her to drop anchor only to watch the anchor break loose from the chain and plunge to the ocean floor.

More recently, the S.S. *California,* built in 1946, was contracted by AID to carry 18,000 tons of corn to Egypt. While it was being loaded with corn at Norfolk, VA., last October, Coast Guard inspectors found several problems and advised the owner that it was unfit to sail until repairs were made. The owner proposed to do enough repairs to keep the vessel afloat and send it across the Atlantic "under tow as an unmanned barge."

The *California* set sail under tow on New Year's Eve—four months later it reached Egyptian waters. For those of you not familiar with modern ocean transport, this is normally a 13 day trip. The Egyptians refused delivery of the corn because of their concern about spoilage. Egyptian inspectors declared the corn "unfit for human or animal consumption." To top it off, the *California* started to keel over in the Port of Alexandria. It was towed to a spot where it would not block traffic if it sank and, as far as I know, is still sitting there loaded with rotting corn.

These are a few of the more noted examples of what kind of shape our U.S.-bulk fleet is in and, in my opinion, evidence enough that our subsidy programs—especially cargo preference—have not helped and probably even hindered modernization of the U.S.-flag fleet.

Our vast array of cash, credit and cargo subsidies have so insulated the fleet from world market conditions that its cost is completely out of line with world rates. Government cargoes have become the only cargoes carried by most flaglines. In fact, eighty-three percent of all U.S. exports moving on U.S.-flag ships are government cargoes that were required to move on American ships.

Thus, there is no incentive to build new ships or even to make present vessels more efficient. Operating on a cost-plus basis, U.S. bulk-ships carrying Public Law 480 Food for Peace grain charge, on average, $53/tn. more than their foreign counterparts—many of which are American controlled.

The U.S. Department of Agriculture, and ultimately the taxpayer, must pay these costs without recourse to question what kind of deal they are getting. In this regard, I commend the Department of Agriculture for their new procedures clarifying the "lowest landed cost" concept to more accurately reflect the U.S. taxpayer's cost—as opposed to the receiving country's cost. This should somewhat reduce cargo preference costs under the Public Law 480 program.

It should be obvious that past efforts to stimulate the Merchant Marine through direct and indirect subsidies have not thwarted the bulk cargo decline. We have seen a laundry list of programs, including guaranteed loans to build the ships, construction differentials to fund the extra cost of building the ships, construction differentials to fund the extra cost of using U.S. crews, tax breaks, and among other things, a Merchant Marine Academy to train the crews. These programs, in addition to present cargo-preference rules, have failed to stimulate U.S.-flag shipbuilding and failed to make the U.S. fleet competitive.

Therefore, I urge the Subcommittee to continue its search for new and different solutions to the Merchant Marine decline and to stay away from the disastrous policies of the past—especially cargo preference.

Senator **STEVENS**. Gentlemen, you tell us which of you would like to go first.

## STATEMENTS OF VAREL BAILEY, VICE PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION AND B.B. SPRATLING, JR., CHAIRMAN OF THE BOARD, AMERICAN SOYBEAN ASSOCIATION

Mr. **BAILEY**. Mr. Chairman and distinguished panel here, I want to first of all express my appreciation for the farsightedness in holding this hearing. The fact is that for a long time I think cargo preference has been having a tremendous impact on agriculture and agriculture shipping.

To those of us out producing agricultural products, we felt that impact was unrecognized. So we really do appreciate this hearing.

As mentioned by Senator Jepsen I am a farmer, earn 100 percent of my income in production of grain and livestock. And this type of issue obviously effects my pocketbook as it effects our ability to move grain into international trade.

I think that I would ask that my testimony be entered into the record and I would like to make a few selected points instead of going through the testimony.

Senator **STEVENS**. Yes, sir.

Mr. **BAILEY**. First of all, I would like to say that we in the Corn Growers Association oppose cargo preference on Government shipments. It really reduces the effectiveness of the dollars that the Government puts into aid programs and we feel that it is not the most productive use of tax dollars, further that we violently oppose cargo preference on commercial trade.

First of all, commercial trade around the world runs on very thin margins and fractions of a cent per bushel can tip the balance as to where a product moves from and to and shipping costs are part of the cost of delivery. And so anything like cargo preference would thus increase the cost of transportation and make our products much more uncompetitive.

We do, however, recognize in the heartland and in the cornbelt that a strong defense is very important, and we do support the maritime and the U.S.-flag ships. And I can tell you that if you went into the coffee shops in the Corn Belt and asked about cargo preference, the item that would probably come up first would be, why isn't that in the defense budget? If we need U.S.-flag ships for times of emergency to carry our military goods and so forth, let's get the cost over where the cause or the reason, justification is for it.

So the agricultural interests, I am sure, would support a transfer of that cost over into the defense budget. The third point I would like to make is that it in effect is a type of an export tax. Any export tax, if you talk to most economists would say that it reduces the standard of living of all of us. It reduces our comparative economic advantage. The corn growers, in an attempt to get a handle on this, project by the year 2000 that if the bill proposed went through, we would have to absorb the cost of about $1 billion a year in 1982 dollars.

So the 20 percent figure that would come into play, if the proposed bill would take place, would be devastating as far as foreign shipments overseas.

A point earlier made by the Senators and Congressmen about cargo preference being a failure in constructing a real competitive U.S. fleet has already been made. Another point that I would like to raise is that if we view the world economy, we have a number of debtor nations in very serious trouble, and I think that an issue that we must address is that in the future we may need for short periods of time to increase aid to those countries to keep them as viable economies. And I think that anything we do to increase our cost of that aid is really counterproductive.

Another point I think that was made by one of the Senators here is that the present form that cargo preference is taking right now is actually causing dramatic shifts in commercial trade. In many instances U.S. Government shipments are being made from ports of actually higher cost than would need be if we did not have the cargo preference provision in there.

So I think that when we sum all this up, I hope you can understand why agriculture is having such a problem supporting cargo preference and actually are working to get its impact reduced. Thank you.

[The statement follows:]

### STATEMENT OF VAREL BAILEY, FIRST VICE PRESIDENT, NATIONAL CORN GROWERS ASSOCATION

It is indeed an honor and a privilege to have the opportunity to testify before this distinguished panel. On behalf of the National Corn Growers Association, I thank you.

As you know, U.S. cargo preference policies have not changed substantially since 1954. They are governed by three laws—the Military Transportation Act of 1904, Public Resolution 17 and Public Law 664, more commonly known as the Cargo Preference Act.

These policies are of interest to corn growers because under them, at least half of all government-subsidized cargo—such as PL-480 "Food for Peace" grain—must be shipped on U.S.-flag vessels. And higher transportation costs mean less of the money earmarked for such grain programs actually goes for the grain. Therefore, we are opposed to the cargo preference concept in general, and the proposed legislation in particular.

In fiscal year 1982, the U.S. Department of Agriculture paid U.S.-flag ships an average of $52.57 more per metric ton—that's equal to $1.34 per bushel of corn—to carry bulk grain exports than the rate charged by foreign-flag ships.

The main reason for the differences is high labor costs on U.S. vessels. The average wage received by an unlicensed able-bodied seaman in 1982 was $3,754 per month—$45,048 per year. In addition, the manning requirements on U.S.-flag vessels are generally double those of foreign-flag ships.

Crewing a U.S. vessel costs from three to five times as much as manning a foreign ship. A tanker with a full U.S. crew has an average annual wage cost of about $3 million, compared with about $1.2 million for a Norwegian or British crew and about $800,000 to $900,000 for an Italian crew.

Compounding the problem is the makeup of the U.S. fleet. The average age of U.S.-flag vessels is estimated at about 25 years, compared with 12 years or less for foreign-flag vessels. Moreover, the U.S.-flag fleet is composed largely of tankers, 'tween deckers, and specialty vessels. These ships are ill-suited for carrying grain and, as a result, involve stevedoring costs as much as double those of bulk carriers.

Again, the National Corn Growers Association does not support any form of cargo preference. But if such policies cannot be eliminated, we would reluctantly support the Reagan administration's desire to leave existing policies intact.

As you know, these existing policies of mandating at least half the PL-480 grain be shipped on U.S.-flag vessels are causing significant problems. In addition to the higher cost, location of suitable vessels is difficult.

In fact, Howard Watters, deputy maritime administrator for inland waterways and Great Lakes, told the 1983 National Corn Growers Association convention last July in Springfield, Illinois, that the U.S. dry-bulk fleet "has deteriorated to such a degree it is nearly non-existent."

That not only explains the difficulty in finding ships, it is a serious indictment against the past 30 years of cargo preference policies.

As a result of the lack of adequate U.S. vessels, shipments have been diverted from the Great Lakes to coastal ports, causing further economic hardship to the economically stagnant Midwest.

Until last year, the USDA had been able to meet the 50-percent requirement by selecting the lowest total cost bids. But that tactic in 1983 resulted in the use of an unusually large percentage of foreign vessels. Late last year, in an attempt to meet the cargo preference requirement, the USDA diverted all 125.5 million pounds of remaining 1983 Title II commodities to U.S. vessels. Those shipments cost $4.4 million more than they would have if less expensive foreign vessels had been used.

Merrill Marxman, deputy administrator of the ASCS, has said the problem of finding U.S. ships with lowest rates is expected to be worse this year, so diversions started early.

As of April 17, Marxman said, the USDA had diverted 296 million pounds of 1984 Title II cargo from lowest-cost ports and foreign ships to ports with higher-cost U.S. ships. He estimated the cost of those diversions at $4.6 million more than the lowest available bids.

But because of the diversions, the USDA expected about 56 percent of the Title II shipments to be transported on U.S. ships through June.

In earlier congressional testimony, Admiral Harold E. Shear, administrator of the U.S. Maritime Administration, said the annual cost of 20 percent cargo reservation—as this bill would provide in the year 2000—had been estimated at as much as $3 billion. And Shear said the additional freight cost on U.S. bulk agricultural exports could be as high as $1.9 billion.

In the administrator's words: "This would no doubt have a dampening effect on U.S. agricultural exports, which are already decreasing."

Mr. Chairman, it is hoped we have turned the corner on decreasing agricultural exports. But legislation such as this would most certainly negate any potential increase.

Senator STEVENS. Thank you very much, Mr. Bailey. Now, Mr. Spratling.

Mr. SPRATLING. Thank you, Mr. Chairman. I am a soybean farmer from Roba, AL, and I certainly appreciate this opportunity to be here with you gentlemen and offer comments of the American Soybean Association and in support of the Senate Concurrent Resolution 56 and with the sense of Congress in opposition to the expansion of cargo preference requirements.

As an association we have been looking at the pros and cons of cargo preference just as you gentlemen have for a number of years, and yet because of our policy I feel responsible to limit my comments to its impact upon soybeans. But, nevertheless, we certainly realize the very serious impact that expanded cargo preference could have on not only soybeans but all of agriculture, and I submit to you, even the total economy of this country because it hasn't worked.

The American Soybean Association does support competitive reform of U.S. maritime policy and welcomes the opportunity for U.S.-flag vessels to carry U.S. soybeans, soybean meal, and soybean oil to our foreign markets but it has got to be done when rates are comparable, somewhere near the world rate for freight as was pointed out earlier.

Certainly cargo preference expansion to include commercial shipping would be a real disaster to not only soybean farm income but all farm income. It would jeopardize our soybean markets through increased costs to transport these products and even cargo preference expansion on Government impelled cargo is going to have a very serious impact.

We have lived with existing cargo preference requirements. The negative impact we have had so long that we really don't feel it so bad. But if you double or increase that impact we are going to suffer.

Among soybean growers I have the reputation of being longwinded, but I know you are not going to let me do that today and I would only request that my testimony be included as part of the record.

Confining my comments to soybean related parts, I call your attention to recent shipments of Public Law 480 soybean oil to Pakistan. I had an opportunity to participate in some of the negotiations of getting this oil back on track going into Pakistan over a year ago.

But when this oil was shipped to Pakistan last May, some 22,000 metric tons of it on American-flag ships charging $59.80 per metric ton, it totaled over a million dollars, 1.316 million. At the same time just a week later a foreign flag ship transported an identical cargo of 22,000 metric tons for a rate of $32 a metric ton, total cost of $715,000.

Obviously you have seen other examples like this, and my real concern is that cargo preference hasn't done the job. That is the problem. We taxpayers and we in agriculture are paying a tremendous price, but it hasn't worked.

I want it to work and I want to support it. I know you gentlemen will work out something that will work, but we have to look in a different direction from where we are now to find a solution.

And again I thank you for this opportunity. And in conclusion I would like to say that the American Soybean Association does support a strong U.S.-flag merchant fleet, and certainly as a nation we need this fleet for national defense. But we categorically are opposed to subsidizing old inefficient vessels through the Cargo Preference Act and we feel like cargo preference in its present form is an inefficient and costly way of promoting U.S.-flag fleet.

Expansion of cargo preference to commercial USDA export programs or to commercial exports will undermine our international export competitiveness, as has been pointed out several times, and at the same time it will be forcing a small group, a few sectors, including myself, to pay this cost of maintaining a merchant fleet. And we won't be getting what we are paying for.

But certainly as an association we feel that a wiser course would be better, some way for Congress to work out a plan to make the U.S. merchant fleet become more competitive, become more efficient. In other words, there is bound to be a way to do it, and I invite you gentlemen to work at it and try to come up with a workable plan but certainly the citizens who are paying the cost of maintaining the U.S.-flag fleet have got to get something.

We all want the same thing but I don't think we are getting it in what we are doing now. And I certainly thank you for this opportunity to be here and submit this testimony.

[The statement follows:]

### STATEMENT OF B.B. SPRATLING, JR., CHAIRMAN OF THE BOARD, AMERICAN SOYBEAN ASSOCIATION

Mr. Chairman, my name is B.B. Spratling, Jr. and I am a soybean farmer from Roba, Alabama. I serve as Chairman of the Board of the American Soybean Association. I am pleased to offer ASA's comments on Senate Concurrent Resolution 56, expressing the sense of Congress in opposition to the expansion of cargo preference requirements. I thank the Committee for this opportunity to discuss cargo preference as it affects agriculture, and ask that my comments be included in the hearing record.

The American Soybean Association is a national, non-profit, producer-controlled, single commodity association organized to assure the opportunity for a profitable soybean industry. ASA is supported by approximately 450,000 soybean producers who voluntarily invest in ASA programs through 25 statewide soybean checkoff programs. ASA seeks to maintain soybean profitability through its foreign market development, research, producer and public information, and government relations programs.

The American Soybean Association supports competitive reform of U.S. maritime policy and welcomes the opportunity for U.S.-flag vessels to carry U.S. soybeans, soybean meal and soybean oil to our foreign markets, as long as rates and service are comparable with those of foreign-flag ships. However, ASA believes an expansion of cargo preference law to include the U.S. commercial sector would result in the reduction of soybean farm income and would jeopardize soybean markets through increased costs to transport our products. Expansion of cargo preference requirements to government-impelled cargo, beyond the current 50% level now applied to Public Law 480 programs, would result in reduced funding available for such exports or in greatly increased federal outlays to subsidize our merchant marine.

Federal agricultural export programs do not work against the interests of the U.S. merchant fleet. On the contrary, increased exports mean more available cargo to transport—as long as the U.S. merchant fleet is price-competitive. Millions of dollars could be saved from the current Public Law 480 budget without sacrificing quality or availability of service if foreign-flag vessels were able to carry Public Law 480 cargoes, or if U.S.-flag vessels offered rates comparable to foreign-flag vessels.

The Cargo Preference Act does not require U.S. vessels to be priced competitively. It only requires that 50% of cargo be shipped on U.S.-flag vessels if those vessels are available at "fair and reasonable" rates for U.S.-flag vessels. There is no requirement that the U.S.-flag vessels be fair and reasonable relative to foreign-flag vessels. Since the U.S.-flag bulk fleet is very small and owned only by a few companies there is relatively little competition on rates charged to handle bulk commodities. Thus, U.S. shipowners can afford to pay extremely high worker salaries and operate inefficient vessels because they can charge whatever is necessary to cover their costs for transportating bulk preference cargo and receive reimbursement from the U.S. government for the differential between their rate and competitive foreign-flag rates.

Recent fixtures of ships to carry Public Law 480 soybean oil to Pakistan, as shown on the attachment, clearly illustrate the high costs of cargo preference. A May 1-10 shipment of 22,000 mt of soybean oil to Pakistan was transported on a U.S.-flag vessel charging $59.85 per metric ton—a cost of $1,316,700. On May 16-23, a foreign-flag ship also transported 22,000 mt of Public Law 480 soybean oil and charged a rate of $32.50 per metric ton—a cost of $715,000. The difference between the two rates was $27.35 per metric ton or $601,700. This premium is an example of what USDA must pay to transport Public Law 480 Title I cargo by way of U.S.-flag ships. In this case, the U.S.-flag ship charged 84% more than the foreign-flag ship. If this money were used to finance additional Public Law 480 commodity exports, 1000 mt more of soybean oil could have been provided to overseas nations.

The argument that agriculture is also a highly subsidized industry continually surfaces as a defense to continued subsidization of the merchant marine. At the outset, Mr. Chairman, I want to point out that soybean farmers do not benefit from deficiency payments, paid setasides, or other taxpayer-supported, direct payment programs. A market-oriented loan program is the only price support program in which soybean farmers now participate. The program serves as a marketing tool and a source of credit for farmers. It is not a drain on the U.S. Treasury. This year USDA will actually make a profit from the program. Yet soybeans have been enormously successful and now are the largest export exchange earner for the U.S. Over half our soybeans are exported each year with a projected 1984 export value of $8.2 billion. We are the dominant supplier of soybeans to the world.

The export expansion programs offered by USDA are crucial to the U.S. effort to be competitive with other exporting nations and to allow cash-poor nations to meet their food import needs. However, the costs of the programs would become so great if they were made subject to cargo preference, they would have to be eliminated. Under USDA's highly successful blended credit program, for instance, interest rates are "bought down" by approximately 2.2% below commercial interest rates. That means a purchaser for soybean oil worth $660 per metric ton realizes a net decrease in annual finance charges of $14.50 per metric ton with the blended credit program. If half of the soybean oil had to be shipped on U.S.-flag vessels at an average differential of $52.00 per ton, the per ton shipping cost would increase by $26.00. Thus, a blended credit program subject to cargo preference would actually increase the cost of the soybean oil to the foreign buyer by $11.50 per ton. Obviously, the foreign buyer would not agree to the higher cost and would either not buy soybean oil at all or would purchase it from another exporting nation. If USDA were forced to pay additional U.S.-flag shipping costs, its cost for the above blended credit sale would increase from $14.50 per ton to $40.50 per ton, almost a 200% increase. If cargo perference were applied to either the GSM-102 loan guarantee program, the GSM-5 direct credit program, the "blended credit program" or future export PIK programs, the costs would be so prohibitive the programs could not be offered.

In FY 1982, U.S. taxpayers paid $97.8 million just for cargo preference under Public Law 480 Titles I/III alone. That translated into $52.57 more per metric ton, or $1.43 per bushel if the cargo was soybeans or wheat. At current prices, that means the preference subsidy would amount to 40% of the price of wheat and 18% of the price of soybeans.

If an increased percentage of U.S. soybean exports are forced aboard U.S.-flag vessels, the additional transportation costs must be paid by someone. U.S. soybean exports compete with foreign-produced oilseeds on a cost-at-destination (c.i.f.) basis. U.S. soy complex export prices and world market shares are already being undercut in the world market due to the predatory export subsidy practices of Brazil, Argentina, Spain and others. For example, Brazilian soybean oil subsidies have made their product $65 cheaper per ton than U.S. soybean oil (c.i.f. Calcutta). The U.S. has lost 85% of its Indian oil market in the past few years.

Since Congress is unlikely to increase USDA appropriations to pay increased cargo preference costs incurred through expansion of cargo preference requirements, farm exports would decline because smaller export volumes would be required to offset the higher transportation expense. That would mean a loss in exports to U.S. farmers and agricultural processors and a decline in agri-industry employment. It would also mean many food-deficient nations would get less food for their people.

ASA believes it is time to stop the threat posed by cargo preference to U.S. trade and the domestic economy. ASA strongly opposes any expansion of cargo preference and urges Congress to instead amend the existing cargo preference law to prevent U.S.-flag vessels from charging exorbitant cargo rates. American soybean farmers believe the 1954 Cargo Preference Act has failed and must be changed. Cargo preference and other maritime subsidy programs have failed their original objective of providing the U.S. with a modern merchant marine capable of supporting a war effort when needed.

Please do not misunderstand ASA's concerns. We do support the U.S. promoting a strong U.S.-flag merchant fleet. As a nation we need such a fleet for national defense. However, we are opposed to subsidizing the fleet, especially old, inefficient vessels, through the Cargo Preference Act. Cargo preference in its current form is an inefficient and very costly way of promoting the U.S.-flag fleet. Expansion of cargo preference to commercial USDA export programs or to commercial exports will undermine our international export competitiveness and force a few sectors of the economy to pay the costs of maintaining a merchant fleet. ASA believes a much wiser course is to force the U.S.-flag fleet to become more efficient through increased competition with all federal subsidies to the fleet being paid out of appropriated funds from the Maritime Administration. Under such a situation all citizens would pay their share of the costs of maintaining a U.S.-flag fleet without our export competitiveness being undermined.

### SELECTED VESSEL RATES

[The following are actual ship charters for transporting Public Law 480 commodities for 1984 to-date. Listed are several typical rates for U.S. and foreign flag vessels for transporting like cargoes to similar destinations.]

| Commodity and date of shipment | Flag registry | Destination | Tonnage (metric tons) | Rate per metric ton |
|---|---|---|---|---|
| Soybean oil: | | | | |
| May 1 to 10 | United States | Pakistan | 22,000 | $59.85 |
| May 16 to 23 | Liberia | do | 22,000 | 32.50 |
| Vegetable oil: | | | | |
| June 16 to 25 | United States | Somalia | 1,816 | 164.50 |
| May 15 to 25 | Panama | do | 2,000 | 85.00 |
| Wheat: | | | | |
| Jan. 3 to 13 | United States | Bangladesh | 82,400 | 43.50 |
| Jan. 16 to 26 | Panama | do | 77,297 | 24.60 |
| Wheat flour: | | | | |
| Feb. 24 to Mar. 5 | United States | Egypt | 26,500 | 94.34 |
| Feb. 24 to Mar. 5 | do | do | 30,379 | 96.00 |
| Mar. 11 to 21 | Liberia | do | 26,254 | 42.83 |
| Mar. 11 to 21 | Greece | do | 29,000 | 42.83 |
| Cotton: | | | | |
| Mar. 5 to 29 | United States | Bangladesh | 1,639 | 256.84 |
| Mar. 30 to Apr. 23 | do | do | 717 | 256.84 |
| Mar. 5 to 29 | Bangladesh | do | 683 | 121.25 |
| Mar. 30 to May 9 | do | do | 2,450 | 121.25 |

Had the above cargo, carried on U.S.-flag vessels (175,951 mt), been transported at the foreign flag rates, the U.S. Government would have saved $6,471,122.80.

Prepared by American Soybean Association, June 1948.

Senator **Stevens**. Thank you. Senator Jepsen, do you have any comments to the witnesses?

Senator **Jepsen**. No, other than to thank them for for their comments. They covered the subject very well collectively. We are so far building a lopsided case here, Mr. Chairman.

Senator **Stevens**. It will balance out in a few minutes.

Senator Kasten.

Senator **Kasten**. I have no comments at this time, Mr. Chairman, thank you.

Senator **Stevens**. Thank you very much. Thank you very much, gentlemen. And I appreciate the positive portion of your comments concerning the necessity to have a viable merchant marine interest in national security. I think that is a good starting point for us to start with those comments from your side.

We will go on through the day. We appreciate it.

Our next witness is Mr. Jesse Calhoon, president of the National Marine Engineers' Beneficial Association. Good morning.

## STATEMENT OF JESSE M. CALHOON, PRESIDENT, NATIONAL MARINE ENGINEERS' BENEFICIAL ASSOCIATION

Mr. **Calhoon**. Good morning, Mr. Chairman. Thank you, Mr. Chairman, for giving me permission to testify before this fine committee.

I have, Mr. Chairman, a statement and if there is no objection, I will submit the statement for the record and just touch on a few of the highlights.

Mr. Chairman, I just listened to the previous witness and I must tell you, I am in complete agreement. His plea was that we make the American merchant marine efficient and cost effective.

Mr. Chairman, this union has been working very diligently to try to do that for a long period of time. Unfortunately we have had Government policies over many years which have supported inefficient, noncost competitive vessels.

As you well know, the American merchant marine is composed mainly of gas guzzling steam turbines. The American shipowner had a choice of building gas guzzling steam turbines or not building a ship because of Government regulations.

These regulations forced all the slow speed marine diesel engine manufacturers out of the United States, forced them into foreclosure in the late 1940's. Because no cast iron fittings were allowed to be used in a U.S. merchant ship.

With the great metallurgical advances that came from our space program, the foreign diesel manufacturers were able to convert their engines from cast iron to fabricated steel and quadruple the power of the engines.

But there was another long statute on the books which said that any American ship receiving government aid must buy all its components from U.S. manufacturers. So the shipowner had a choice of building a steam turbine or not building a ship.

Mr. Chairman, the excess fuel costs on the steam turbine alone, exceeds the wage cost on an American ship somewhere in the neighborhood of $3 million a year.

The U.S. Navy for its own reasons, which are certainly valid, wants certain types of ships for national defense purposes. And that can be accommodated to a certain degree. But it cannot be accommodated to the same degree as it has in the past.

We have a fleet of vessels built in the 1960's and 1970's that are relatively new, expensive ships but they are really antiques. They are great Naval auxiliaries in that every ship is self-contained, so they can discharge cargo across the beach during an invasion and every ship has all the national defense features.

The only problem, Mr. Chairman, is that they can't compete in the international market. How can a ship carrying 10,000 to 12,000 tons of cargo compete with a ship carrying 60,000 tons of cargo? The economies of scale kill us.

But last Saturday my garden tractor broke down and I went down to the farm supply place to see if I couldn't get a new one. And the same tractor I had, Mr. Chairman, was a little over $5,000. It was a gasoline tractor built in North Carolina, my home State, so I was a little partial to it.

But sitting on the floor right next to it was a Japanese diesel tractor, same size, little more power, and about $500 cheaper. Mr. Chairman, all I am asking is that you give us a level playing field. Don't say to the farmer you can buy your farm equipment anywhere in the world where it is cheapest, but to the merchant marine, you have to buy the most expensive. Give us a level playing field to play on.

There is a vast difference between price and cost in marine transportation. The American shipowner must deal with cost. Yet we are competing eyeball to eyeball with sovereign nations. more specifically the U.S.S.R. And as far as the U.S.S.R. is concerned, its merchant marine exists for political reasons.

We know from past history how much we can depend on NATO. We know what the Premier of West Germany said to President Carter during that episode in the desert of Iran. He said that the NATO fleet was a NATO alliance and was not available to the United States in the Middle East.

We know what was said to the United States in Israel during the Yom Kippur War: Liberia sent out a radiogram to every ship under the Liberian flag saying you cannot trade with Israel and they all complied. They all complied. Now, since that day they have tried to make many, many excuses for it. It wasn't an order. It was just a recommendation. Mr. Chairman, those orders have been submitted to this committee before. So they are on the record. There was no equivocation. It was an order.

And the companies responded as international orders require them to respond to the law of the nation in which their ships are registered, not to the laws of the nation of the owner of the ship. And there is a long history in the international tribunals which establishes that the laws of the nation of register apply to the vessel.

We know what the Soviets are doing. I spoke 3 weekends ago of a Soviet captain who was in the fishing and merchant marine for 40 years but defected to Sweden several years ago. And he has written a book on his experiences. He wrote it in Swedish and it is being translated into English in London. And there is no question that the Soviet merchant marine is an integral part of the military establishment. On every fishing vessel and every merchant vessel there is a KGB officer who has rank above the captain of the vessel.

We know what the purposes are. We know where they are expending money. We know what thieves they are. We know how they have stolen our secrets. They have stolen the British secrets. They have stolen the secrets on merchant ship design, on fishing vessel designs. They have damn near destroyed our coast in the fishing area. If the Members of Congress had been privy to this book in 1977, the 200-mile limit would have passed by 100 Senators and 435 Congressmen. That is the world we live in.

We have great sympathy for the American farmer. We are not complaining about any subsidies the American farmer gets. He needs it. He is a hard-working honest American and he has done a tremendous job in productivity.

We want to do the same thing, Mr. Chairman. We are coming very close to that. Our new modern ships are within pennies of being cost competitive. We have six or eight vessels that were built in foreign shipyards under that window that was opened by the Congress 3 years ago that are coming on line. They have started a rate war among the U.S. ships and it is going to force some of the older ships, the high cost ships out of business. Now, we are going to lose jobs, but we think that is a great development for this country and a great development for our industry.

We want that competition. We want to compete. We can compete. We have the best crews. What we lack is the best equipment. And we have good equipment for multipurposes, but we don't have good equipment for cost effectiveness.

But please, Mr. Chairman, just give us some time. And as I have testified before, we have to replace our relatively new antiquated fleet with a cost competitive fleet. The American maritime unions have shown that they understand the problem. Since Ronald Reagan has been President of the United States this union has given up voluntarily 9 percent in wage increases which were previously negotiated. We have just consummated a contract through June 1987 which is effectively a no-cost contract. Most all of the maritime unions have done the same thing. And it was done voluntarily with our eyes wide open.

But we do want to compete, Mr. Chairman. We do want to make the American farmer competitive. We do want to make the American manufacturer competitive. But if the American merchant marine is squeezed out, then their fortunes will be left to the sharks of the world, as we have seen in previous history which is covered in my testimony.

Thank you, Mr. Chairman. I will be available for any questions.

Senator STEVENS. Thank you, very much. I appreciate your testimony. As I said your complete statement will be printed in the record.

And I believe you are right, I think we are going to have to take the time to bring these two great forces of our economy together and not have a war develop between agriculture industry and the merchant marine. And I think we will be able to do it.

We are going to explore this in depth as we go ahead through this year and next year. Senator Jepsen.

Senator JEPSEN. Do you have any comment on the fact that, since we are both concerned, for the security of this country, the Defense Department and some measure might share some of this rather than the agricultural community?

Mr. CALHOON. Senator, I have been a resident of Washington, DC, for 10 years. How the U.S. Government works is as strange to me as a Ouija board.

I don't care where the costs come from. The U.S. dollar is the same whether it comes out of agriculture or whether it comes out of defense or whether it comes out of EPA. It is the same dollar, and I do not understand the interworkings of the U.S. Government.

Senator JEPSEN. I thank you and I can appreciate how you feel. However, it is the same agricultural people who don't feel quite the same way. It makes a difference whether the costs come out of their pocket or not, but I appreciate your comment and your sincerity.

Mr. CALHOON. I want you to know, Senator, I was raised on a farm in North Carolina. And I would like to cover one thing to which Congresswoman Smith addressed herself.

She addressed herself to the SS *California*. Mr. Chairman, we don't support that type of operation. We have had two vessels with which the owners of this vessel were associated.

One of these vessels, the SS *Poet*, went down at sea with all hands lost about 3 years ago. This same owner had another vessel which came into Tampa, FL, and it was an old wreck. The vessel was put on dry dock. The crew was laid off and the underwater inspection was done by the U.S. Coast Guard. The sea valves, audio gauge, the stern tube, the rudder, and the vessel were put back in the water and laid up for about 3 months.

The vessel was towed from the lay berth to a grain elevator and was half loaded with about 12,000 tons of grain. And the owner ordered a crew from the union hall and requested the Coast Guard to come down and finish their inspection.

There were two reporters from the Philadelphia Inquirer that had done an outstanding series of articles on the loss of the SS *Poet*. So I invited both of these reporters to go to Tampa, FL, and one did go.

We disguised him as a union official so he could go aboard the ship and see the conditions and what we go through to get a certificate of inspection. And remember that the ship had just come off a dry dock 3 months before. And the audio gauge measures the thickness of the steel in the bottom of the ship while it is underwater. The second assistant engineer went out to sound the fuel tanks, which was his first job. The sounding of the fuel tanks is done from the main deck through a 2-inch pipe that has a brass watertight seal on top and it drops down through the ship to within one-half of its diameter to the bottom of the tank. Under the sounding pipe is a so-called strike plate that under the regulations has to be the same thickness as the hull of the ship. When the second assistant dropped an 8-inch brass sounding pop into this tank, it showed up on the bottom of Tampa Bay.

It went right through the strike plate and the bottom of the ship. But the U.S. Coast Guard did not require the ship to unload that grain and go back on dry dock for a reexamination of the hull. The Coast Guard inspector on the job said we must have missed that little place in the audio gauge.

Although we pointed out to the Coast Guard all the defects, and the vessel could not pass an inspection, Mr. Chairman, it was granted a temporary waiver to make a one-way voyage. So the vessel went out loaded with USDA cargo.

It was in a totally unseaworthy condition. The life of every man and woman on that ship was at stake. Thank God it was a fair weather voyage and it arrived. Had it been a North Atlantic voyage, I have no doubt in my mind that ship would never have made it across the North Atlantic.

So we do have concerns, Senator, about those kind of conditions. It is the lives of our members that are at stake. But these ships, Senator, have been chartered by the U.S. Government and they keep being chartered by the U.S. Government. But these ships have outlived their economic viability. Meanwhile, the shipyards are going hungry.

But if the Government would stop chartering these wrecks, we would see some construction and you would see some modern ships that would be more cost competitive. Thank you.

Senator **Stevens**. Thank you very much. I appreciate your testimony.

Mr. **Calhoon**. Thank you, Mr. Chairman.

[The statement follows:]

## STATEMENT OF JESSE M. CALHOON, PRESIDENT, NATIONAL MARINE ENGINEERS' BENEFICIAL ASSOCIATION

Mr. Chairman and members of the subcommittee, I am pleased to testify on behalf of the Marine Engineers' Beneficial Association on S. Con. Res. 56, introduced by Senator Jepsen. The resolution essentially prohibits any expansion of cargo preference.

Let me say at the outset that I am completely sympathetic to the political demands of Mr. Jepsen's agriculture constituency and the importance of this constituency to the American economy. It is clear, however, that the Senator either does not understand or is totally underestimating the importance of a U.S.-flag maritime fleet. Although his resolution rightly points out the fierce foreign competition faced by our farmers, it fails to recognize that our merchant marine is confronted by many of the same competitive forces.

The cargo preference policies of other countries and the 40-40-20 formula of the UNCTAD Liner Code are just some of the policies that contribute to this bitter competition. As you know, Mr. Chairman, countries with state-run economies do not have private merchant fleets in the same sense that we do. It is impossible to determine whether the rates charged by these fleets even come close to covering their costs. And when a country such as the Soviet Union is unconcerned with cost and seeks only to expand as much as possible into Western trading spheres solely for political purposes, the result is unfair, predatory competition. In the past 20 years the Soviets have set out on a course of rapid expansion into the cross-trades so that today roughly half of Soviet cargoes involve these cross-trades. The consequence for the West is that Soviet merchant ships move about 5.6 percent of all world cargoes even though the Soviet economy generates only 2.5 percent of world trade. The Soviet attitude and thus its policy toward its merchant fleet is dramatically different than ours. The Soviets consider every merchant vessel a military ship first and a commercial ship second; their goal is not profit, it is expansion and military capability. With these goals the Soviets are able to muscle into major trade routes by shunning conference prices and underbidding Western competitors by as much as 25 percent in some cases and 40 percent in others. So in this "free" market, certainly the Soviet freight rates are lower than ours. But surely Mr. Jepsen would not prefer to see our U.S. fleet replaced by Soviet and other state-owned fleets. Unfortunately, we would be headed in this direction if we were to take his resolution to heart.

For instance, one clause in the resolution declares that the effective United States controlled fleet is sufficient for our war time needs. It implies that we should allow free competition to dictate the existence or non-existence of a U.S. fleet because we can rely on the so-called flags of convenience fleet during international crises. Yet there is no evidence that these ships and crews will be at all reliable. In 1980 Ronald Reagan referred to this very problem while discussing the danger of a dwindling merchant marine. He said: "There are some 500 U.S.-flag ocean going vessels—but they carry less than 5 percent of our own commerce. Ninety-five percent of U.S. trade is carried in foreign bottoms. In time of crisis, will those ships be available? We simply don't know. When we find out, it may be too late."

Such a crisis occurred in 1973 during the Yom Kippur War. By now the subcommittee is aware that during this war the President of Liberia issued an edict forbidding all Liberian-flag ships carrying war supplies from entering the war zone. As you know the majority of U.S. effective controlled ships are registered in Liberia. Where the ships are registered, however, is almost irrelevant. The crucial point is that despite treaties and assurances, there is always a risk that U.S. ships registered in other countries will have to comply with the instructions of those countries' leaders who may not always be sympathetic to the United States.

Beyond the question of availability, Mr. Chairman, is the question of suitability. The effective control fleet is made up of ships that for the most part will not be useful for military purposes because they are too large. Military sealift operations require bulk ships and smaller tankers.

Reliance on foreign vessels may have economic consequences as well. Before World War I, for example, the United States had become almost totally dependent on foreign shipping to carry its trade. When the war broke out, however, the foreign shipping returned home and there was no American tonnage to take its place. Freight rates on cotton shipped from a southern U.S. port to the United Kingdom rose form $2.50 to $60.00 a bale and wheat from 5 cents to 60 cents a bushel.

The same people who argue that the effective controlled fleet is reliable also argue that the combined NATO private fleet would be enough to supplement our merchant vessels in war time. There are two problems with this argument: First, it has been shown recently that our allies, both Europe and Japan, do not always endorse military actions of the United States and consequently cannot be counted on to lend their ships in a crisis involving only the United States and another country. Secondly, the private fleets of many of our allies are shrinking even more rapidly than our own, primarily because many of their ships are joining the fleets of flag of convenience nations. The fleets of Great Britain, West Germany, and Norway have been particularly hard hit in this regard. Few people in America realize how serious the shrinkage of our allies' fleets has been. It is estimated that one-third of all the German-owned tonnage is now flag of convenience. And in just seven years the tonnage of the British merchant fleet has virtually been cut in half.

I would not want to leave you with the impression, Mr. Chairman, that the American merchant marine has no responsibility to make its ships and thus its freight rates more competitive in the world markets. I believe the fleet is ready and willing to do this with only limited help from the government—not so much in the form of subsidy funds but in the form of new policies. Examples include tax incentives to encourage U.S. exporters to ship on U.S.-flag vessels and permission to build abroad and receive operating subsidies and the privilege to carry preference cargo immediately. In addition, the industry must be committed to improved productivity and efficiency through the operation of the most modern ships and new labor-management relations built on compromise.

Fortunately, this process has already begun. Recently several U.S.-flag companies have brought new fuel-efficient, modern, bulk ships into the U.S. foreign trades. Two of these ships, the *Aurora* and the *Archon,* were built in foreign countries and are receiving no operating subsidy. Even without the subsidy, however, these ships are bidding rates that are within several dollars of the world average—a far cry from the 300 percent markup Mr. Jepsen claims U.S. bulk ships are charging. Moreover, at least 8 other subsidized bulk ships or tankers which carry bulk cargo have been charging rates close to the world average in the past year. This low bidding has resulted in a rate war of sorts among U.S. ship operators to the extent that even the older, less efficient ships have lowered their rates in order to compete. Mr. Jepsen's resolution assumes that the U.S. bulk trades remain stagnant. Yet substantial progress has been made and the Congress should recognize it rather than penalize the industry with a resolution like Mr. Jepsen's.

Earlier this year when Senator Jepsen offered his resolution as an amendment to the Export Administration Act, he argued that application of cargo preference to the blended credit program would be an expansion of cargo preference. But it would not be an expansion, Mr. Chairman; it simply would be applying the current law. Even if this resolution were to pass, the Departments of Agriculture and Transportation would still find themselves in court if they attempted again to evade the current laws on cargo preference because the resolution calls only for a termination in expansion of cargo preference, not a prohibition on further application of the law.

As a matter of fact, the National Marine Engineers' Beneficial Association believes that an expansion of cargo preference into the commercial trades would only be feasible if it had Administration support. This support will come only when the Administration begins to realize that the merchant marine is essential for carrying military cargo to the battlefield during the first critical days of an engagement as well as other crucial military support operations. When a crisis arises, the fleet cannot be produced with a snap of the finger. We must develop policies now that will encourge the growth of our private fleet. Short of this Administration support, however, we insist on at least the enforcement of the current law. Today the Maritime Administration lacks the leadership necessary to enforce the laws for which it is statutorily responsible. In the case of the blended credit program, for example, MarAd first determined that the program was legally subject to cargo preference. Yet it later acquiesced to the demands of USDA and allowed the program to go forward without the required carriage of the generated cargo on U.S.-flag ships.

In short, the Jepsen Resolution could go further than merely preventing any expansion of cargo preference programs It could frustrate our efforts to see that the vital statutes already on the books are fairly observed. It could signal government agencies who already circumvent or ignore America's laws that their illegal activities are acceptable. And it could cast a bad light on a good program that must be respected, not restrained.

Senator STEVENS. In order to sort of sort this thing out I want to change this panel around a little bit and call up now the panel of Mr. Regan, corporate vice president of transportation for the International Minerals & Chemical Association, Mr. Mauro Brannan, director of commodity policy and analysis, Far-Mar-Co, a Divison of

Farmland Industries, Inc., and have them be joined by Mr. George Berg and Mr. Robert Hampton.

Mr. Berg is assistant director of the National Affairs Division, American Farm Bureau Federation, and Mr. Robert Hampton, consultant of the National Grange. And that way we will have all our agricultural witnesses here.

Senator Jepsen indicated he would stay through these witnesses. I would like to call them together, if I may. Thank you very much I appreciate your courtesy. I do understand that some of you have a timeframe problem. I am sure everyone else does too.

If we could start with Mr. Regan and go to Mr. Brannan and Mr. Berg and Mr. Hampton. Gentlemen, as I said to all witnesses we would be happy to print your full statements in the record and we would like to have you proceed. Mr. Regan?

## STATEMENTS OF THOMAS J. REGAN, CORPORATE VICE PRESIDENT, TRANSPORTATION AFFAIRS, INTERNATIONAL MINERALS & CHEMICAL ASSOCIATION; MAURY BRANNAN, DIRECTOR, COMMODITY AND POLICY ANALYSIS, FAR-MAR-CO., DIVISION OF FARMLAND INDUSTRIES, INC.; GEORGE L. BERG, JR., ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION; AND ROBERT N. HAMPTON, CONSULTANT, THE NATIONAL GRANGE

Mr. Regan. Thank you, Mr. Chairman. I am corporate vice president of transportation for International Minerals and Chemical and today I appear on behalf of the Fertilizer Institute as I currently serve as their chairman of transportation.

I would like to say at the outset that we at the institute are strongly in favor of the Senate Concurrent Resolution 56, and we appreciate this opportunity to express our views on this subject.

Resolution 56 expresses the fears of the agricultural community regarding the expansion of cargo preference. The intolerably high shipping costs associated with the mandated increase in the use of U.S. vessels would destroy the competitive position of the U.S. agricultural products in the world marketplace.

Now, this resultant reduction in farm income would have a serious and very adverse impact on the economy of the Nation as a whole.

I would like to address the two major benefits that are cited by its proponents that would result from the expansion of cargo preference. First, they say it will create jobs in the maritime industry without any cost, particularly any cost to the Federal Government.

If this were true the fertilizer industry and the entire agricultural community would heartily support the idea. However, we do not feel all the facts have been revealed. It is a fact that in the Florida phosphate industry, exports fell off by 25 percent in 1982. And this was matched by an industry layoff of 25 percent of the work force directly related to the production of those phosphates.

Now, if this condition is extrapolated to the agricultural industry, where over a million jobs are directly related to exports, the effect is absolutely frightening. Now, under these circumstances one can hardly defend the idea that the expansion of cargo preference would result in increased employment in the United States.

The other point that is being used to justify the expansion of cargo preference is to establish the merchant marine fleet that will be needed to supply military support in the event of a national emergency.

According to the U.S. Naval Sealift Command at least 350 dry cargo ships would be required to supply the fighting forces during a conventional war. I say there is a ready source at present to satisfy this need, that is the so-called flag of convenience fleet. These are ships that have been built by U.S. money that fly foreign flags.

In time of emergency they are subject to requisition by the President. Now, at the last count there were 466 dry bulk vessels in this fleet. The fertilizer industry is certainly in accord with fulfilling any need that is required for the safety of our country.

Now, if additional dry bulk vessels are truly required for national security reasons then this need is a need that touches all of us. The cost of supporting that need should be borne in the defense budget and not placed on the back of industry, especially the agricultural industry that presently serves the country in such a very positive fashion.

The danger of expanding cargo preference already has been recognized by the Department of Transportation and the Department of Agriculture. Jointly they made a decision to exempt from cargo preference requirements those agricultural commodities that would be exported under the blended credit program.

This program was designed to enhance the export of agricultural products by providing loans to the prospective buyers at very attractive interest rates. This decision now has been challenged by the Seafarers International Union and the Transportation Institute and presently is on the docket of the U.S. District Court in Washington, DC.

However, what really is at stake here is the potential sale of $1.75 billion in agricultural products, moneys that will have a favorable impact on stemming the tide of the increasing trade deficit of the country.

The Fertilizer Institute along with 20 agricultural groups have filed a friend of the court brief in support of the decision. We believe that the decision is sound, that higher shipping costs associated with cargo preference would completely negate all of the attractiveness of the blended credit program.

The issues involved in this court proceeding are the same as the issues addressed by the Senate Concurrent Resolution 56. Therefore, Mr. Chairman, I respectfully request that the friend of the court brief and the documents explaining the DOT and the Department of Agriculture decision to exempt the blended credit program from cargo preference be included in the record of this hearing.[1]

These documents are attached and are part of the written statement of the Fertilizer Institute. Mr. Chairman, in conclusion the Fertilizer Institute supports Senate Concurrent Resolution 56 because it clearly defines the deleterious effects of cargo preference expansion on our Nation's largest employer, the American agricultural industry.

Mr. Chairman, I thank you for this opportunity to testify.

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[1] The material referred to has been retained in the committee files.

[The statement follows:]

## STATEMENT OF TOM REGAN, ON BEHALF OF THE FERTILIZER INSTITUTE

Mr. Chairman, my name is Tom Regan and I am Corporate Vice President of Transportation Affairs, International Minerals and Chemical Corporation, headquartered in Northbrook, Illinois. I appear here today on behalf of The Fertilizer Institute (TFI).[1] I currently serve as Chairman of TFI's Transportation Committee.

We appreciate this opportunity to testify on Senate Concurrent Resolution 56 (S. Con. Res. 56), expressing the sense of Congress that further expansion of cargo preference requirements, whether for commercial or other trade, is not in the interest of the United States and should not be imposed. We support enactment of the resolution.

The resolution, introduced by Senator Jepsen and co-sponsored by Senators Kassebaum, Boschwitz, Abdnor, Percy, Grassley, Quayle, East, Danforth, Nickles and Exon, recognizes agriculture's greatest fear—that expanded cargo preference requirements and the dramatic increased shipping costs associated with mandated U.S. flag carriage of farm commodities, will seriously curtail the shipment of these commodities thereby reducing farm income and adversely impacting our nation's agricultural economy.

The fertilizer industry is sympathetic to the goals of your subcommittee which is to promote and improve the nation's merchant marine industry. However, as a representative of America's agribusiness, we raised objections in testimony presented September 27, 1983, to legislation pending before your subcommittee that would expand "cargo preference." Briefly, we oppose the legislation for the following reasons:

The fertilizer and grain industries should not be forced to subsidize the bulk Merchant Marine industry.

Cargo preference legislation is not a "jobs bill." For those jobs created in the maritime construction industry, jobs will be lost in affected import/export industries because of their inability to compete in the international market as a result of increased U.S. flag rates.

The U.S. government has subsidized the Merchant Marine Fleet since 1936 and should reevaluate its subsidy program before shifting it to other segments of the nation's economy, such as the agribusiness industries.

If the defense of the U.S. is dependent on U.S. flag vessels, financing for construction and operation of these vessels should be paid out of the Defense outlays and shared by all Americans.

Cargo preference legislation leaves uncertain what industries may be affected at any given time by the broad authority given to the President to certify commodities that may affect national security. Thus, this uncertainty would erode the reputation of the United States as a dependable supplier of grain and fertilizer.

Cargo preference legislation would expand the laws to include new USDA credit programs designed to boost agricultural export sales. Subjecting farm commodity sales to cargo preference would drain dollars from these new USDA programs, and negate efforts to increase agricultural exports.

Expanding cargo preference requirements would increase transportation costs for U.S. agricultural exports thereby reducing the United States' international market share. The result would be an increase in agricultural industry unemployment, and a reduction in America's balance of payments.

Mr. Chairman, to illustrate how serious agriculture regards the threat of legislation that expands cargo preference and its resulting impact on farm exports and farm income, over 20 agricultural groups joined together and filed a "friend of the court" brief in support of a decision made by the U.S. Department of Agriculture and the Department of Transportation to exempt the new and very important farm export enhancement tool known as the "blended credit" program from cargo preference requirements.

The brief was filed in response to a suit filed October 14, 1983, by the Seafarers International Union and The Transportation Institute in the U.S. District Court to overturn a decision by the Administration not to implement the requirements of the Cargo Preference Act of 1954 on a program which stimulated $1.75 billion in agricultural exports. The U.S. District Court Judge for this case has accepted the brief and it will be made part of the Court proceedings which began on June 20, 1984.

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[1] TFI is a voluntary, non-profit association, whose members represent approximately 95 percent of the domestic fertilizer production in the United States. TFI's membership includes: producers, manufacturers, traders, retail dealers and distributors of fertilizer materials. Its members are major shippers, receivers, and exporters of fertilizer and fertilizer materials and are a vital link in the nation's agriculture system.

The issues addressed by S. Con. Res. 56 are the same as those issues involved in this court proceeding. The Administration's decision, based on the discretion afforded by the Cargo Preference Act, recognized that the "blended credit" program which is intended to stimulate agricultural exports would be destroyed if "cargo preference" provisions were applied. The higher shipping costs associated with cargo preference would make the program extremely unattractive to participants, thereby eliminating participation. Such action would not only destroy the export enhancement program, it would, at best, do nothing to assist the nation's merchant marine industry. We support S. Con. Res. 56 because it too recognizes that agriculture should not be forced to subsidize the merchant marine industry.

The farm organizations listed in the "friend of the court" brief firmly believe that cargo preference expansion would severely depress farm exports and, therefore, spent a great deal of time, effort and resources to make their views known to the courts. In addition, the American Farm Bureau Federation filed a similar brief.

I respectfully request that the "friend of the court" brief and the DOT and USDA decision to exempt the blended credit program from cargo preference requirements be included in the hearing record. It is attached as part of TFI's written statement.

Mr. Chairman, in conclusion, The Fertilizer Institute supports enactment of S. Con. Res. 56, which clearly defines the adverse affects of cargo preference expansion on our nation's largest employer—American agriculture.

I thank you for this opportunity to testify.

Senator **Stevens** Thank you very much, Mr. Regan. Mr. Brannan?

Mr. **Brannan**. Good morning, Mr. Chairman. My name is Maury Brannan and I am testifying today on behalf of the National Council of Farmer Cooperatives. My current position is director of commodity and policy analysis for the Far-Mar-Co, the grain marketing arm of Farmland Industries in Kansas City, which is a member of the National Council.

The Farmland is owned by about one-half million farm families through 2,300 local cooperatives in 18 States. We strongly support the resolution 56, opposing expansion of cargo preference. And we commend Senator Jepsen, Senator Kassebaum and the cosponsors of the resolution for their position.

We recognize the benefits of a strong, secure and competitive U.S. commercial shipping fleet. The National Council of Farmer Cooperatives supports the national maritime policies as long as such policies do not impede exports of U.S. agricultural products through cargo preference.

We are opposed to an expansion of cargo preference for four of the following reasons: one, expansion would be costly to the American farmers and the agricultural trading sector; two, cargo preference has already been too costly to the taxpayer and has increased the Federal deficit; three, an expansion would damage U.S. trade in agricultural and other goods. Fewer exports would mean a shrinking tonnage would be reduced for U.S.-flag vessels; and No. 4, there is no guarantee that the cost of expanded cargo preference would achieve the objectives of a more secure, competitive or efficient maritime fleet.

In fact, the history of the cargo preference demonstrates just the opposite. It has been covered many times this morning, it is very costly to farmers. Requiring cargo preference on a percentage of private commercial exports would increase the cost to transport bulk commodities and increase freight rates by two or more times the rate charged by foreign flag vessels.

If cargo preference was mandate on commercial sales it would barely increase cost. Basically it comes back to hurt the U.S. farmer in two or three ways. I will not cover those points, they are in the paper, but it is very important that the U.S. farmer be protected to have a competitive outlet for his product.

If 5 percent of the bulk commodities were required to go on more expensive U.S. vessels, the increased cost would be approximately $256 million. If it is expanded to 20 percent, the cost would be a little over a billion dollars in a single year.

We mentioned earlier it is costly to taxpayers and bulk exporters. Government cargo preference requirements have been costly to the taxpayer and similar costs would be imposed on the private sector if cargo preference was expanded.

It isn't fair for agriculture to bear these costs in this commodity credit area, particularly Department of Agriculture. There is no justification to further expand what is already an expensive program.

It also harms U.S. trade. Expansion of cargo preference would discourage trade by forcing commercial freight rates up and competitiveness of U.S. goods down. Mandating a cargo preference requirement on a totally private, commercially negotiated sales would increase cost and disrupt private transactions.

Such a short-sided requirement could only reduce our trading volume and cause longterm damage to the maritime industry itself. The U.S. cannot afford such damage. The United States has had four consecutive quarters of record high trade deficits. Why place an additional burden on the U.S. trade at a time when this Nation can least tolerate it?

Another point, there is no assurance of a secure competitive fleet. Proponents of cargo preference contend we should maintain and protect the U.S. maritime fleet for improved national security. We in agriculture have a stake in a secure, competitive and modern U.S. shipping fleet.

However, the military usefulness of many of the vehicles now carrying Government preference shipments is highly questionable. Although the program is justified for national defense reasons, there is no requirement that the U.S. vessels carrying preference cargo be capable of serving a defense auxiliary.

For years the U.S. Government has been providing aid in various forms to the maritime industry, but the U.S. maritime fleet is still not cost competitive or modern compared to commercial maritime fleets of other nations but simply cargo preference subsidies have not led to the revitalized efficient U.S. bulk fleet capable of adequate military support.

If cargo preference has not worked, why expand it? By guaranteeing a market for U.S. commercial bulk fleet, the Government would remove the incentive to compete.

Mr. Chairman, instead of cargo preference, we urge you to explore other constructive ways to strengthen the maritime industry and we stand ready to work with you in that effort. Thank you.

[The statement follows:]

## STATEMENT OF MAURY BRANNAN, CHAIRMAN, GRAINS & FIBERS SUBCOMMITTEE, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. Chairman, my name is Maury Brannan and I am testifying today on behalf of the National Council of Farmer Cooperatives. The National Council is an association of cooperative businesses which are owned and controlled by farmers. Our membership consists of regional marketing and farm supply cooperatives, the banks of the cooperative Farm Credit System, and state council of farmer cooperatives. The National Council represent about 90 percent of the more than 6,100 local farmer cooperatives in the nation, with a combined membership of nearly 2 million farmers.

I am Director of Commodity and Policy Analysis for Far-Mar-Co, the grain marketing arm of Farmland Industries which is a member of the National Council. The Farmland system is owned by 500,000 farm families through 2,300 local cooperatives in 18 states.

I appreciate the opportunity to testify this morning ragarding cargo preference. We strongly support S. Con. Res. 56, a resolution opposing expansion of cargo preference, and we commend Senator Jepsen, Senator Kassebaum and the cosponsors of S. Con. Res. 56 for their position.

It is important to note that S. Con. Res. 56 does not call for a repeal of cargo preference where it currently applies. The resolution simply states that cargo preference should not be further expanded.

Mr. Chairman, we recognize the benefits of a strong, secure and competitive U.S. commercial shipping fleet. The National Council of Farmer Cooperatives supports national maritime policies, as long as such policies do not impede exports of U.S. agricultural products through cargo preference. In January 1984, our membership reaffirmed its firm opposition to the expansion of cargo preference to commercial agricultural exports.

We are opposed to any expansion of cargo preference for the following reasons:

(1) An expansion would be costly to American farmers and the agricultural trading sector.

(2) Cargo preference has already been too costly to the taxpayer and has increased the Federal deficit.

(3) An expansion would damage U.S. trade in agricultural and other goods. Fewer exports would mean a shrinking tonnage market for the U.S. flag fleet.

(4) There is no guarantee that the cost of expanded cargo preference would achieve the objectives of a more secure, competitive or efficient maritime fleet—in fact, the history of cargo prefernce demonstrates just the opposite.

The real question before us today is: at a time when farm exports have fallen, many farmers are in economic trouble, and the U.S. is running a record trade deficit, should the United States mandate a further impediment to trade? Clearly, the answer is "no".

I would like to review our reasons for this position in more detail.

### COSTLY TO FARMERS

Requiring cargo preference on a percentage of private commercial exports would increase the cost to transport bulk commodities, and increase freight rates by two or more times the rates charged by foreign-flag vessels. U.S. flag rates are already substantially above foreign flag levels. Public Law 480, shipments in fiscal year 1983 averaged $39.89 per metric ton on foreign flag vessels, compared to $83.57 for U.S. flag vessels. U.S. vessels charged an average of $39.77 per ton more, or twice the foreign flag rate, for identical service.

If cargo preference was mandated on commercial sales, it would require the use of more expensive U.S. flag ships. Who would bear the increased cost?

If the buyer was forced to pay it, U.S. products would be less price-competitive and our foreign customers would buy elsewhere, reducing demand for U.S. farm products. If the exporter was forced to pay it, the increased cost would be passed back through the marketing system to the farmer in the form of lower prices for farm products. Either way, the farmer loses.

How much would such a requirement cost? The U.S. Department of Agriculture estimates that agriculture exports in fiscal year 1984 will total 142 million tons, of which the bulk commodities (wheat, coarse grains, feeds, ingredients, and fodders, rice, and soybeans, cake and meal) make up 128.6 million tons. If five percent of the bulk commodities were required to go on more expensive U.S. vessels, the increased cost would be $255.7 million. If 20% was required, the cost would be $1.022 billion—in a single year.

### COSTLY TO TAXPAYERS AND BULK EXPORTERS

Existing cargo preference costs are expensive, and would only increase if current cargo preference law is broadly interpreted to include new export initiatives. The net result would be increasing government costs at a time of record deficit spending.

Government cargo preference requirements have been costly to the taxpayer, and similar costs would be imposed on the private sector if cargo preference was expanded. Agricultural exporters would pay twice: once in the form of higher shipping costs, and again in the form of higher taxes needed to pay higher cargo preference costs.

The January 31, 1984 report of the General Accounting Office estimated that the increased cost of cargo preference in 1980 was between $71.4 and $78.6 million. During that time, Public Law 480 food shipments accounted for approximately 90 percent of the government's additional transportation costs.

The Department of Agriculture's Commodity Credit Corporation makes the payments to cover the differential between U.S. and foreign flag freight rates. Actual CCC expenditures for the Ocean Freight Differential on Public Law 480 were $120.1 million in 1982 and $77.2 million in 1983. The estimate for 1984 is $82.5 million.

It is unfair to American agriculture that these costs are borne by the CCC and attributed to the Department of Agriculture. There is no justification to further expand what is already an expensive program.

### HARMS U.S. TRADE

An expansion of cargo preference would only discourage trade by forcing commercial freight rates up and the competitiveness of U.S. goods down. Mandating a cargo preference requirement on a totally private, commercially negotiated sale would arbitrarily increase costs and disrupt private transactions.

Private analysts have stated that increased business for U.S. shipping companies would be more than offset by the loss of jobs in agriculture and other sectors. In fact, such a short-sighted requirement could ultimately reduce our trading volume and cause long-term damage to the maritime industry itself.

U.S. trade cannot afford such damage. Overall U.S. trade had a deficit of $25.6 billion in the first quarter of 1984, up from $19.4 billion in the fourth quarter of 1983. The United States has had four consecutive quarters of record/high trade deficits, and this year's annual trade deficit is expected to substantially exceed last year's $61 billion. Why place an additional burden on U.S. trade at a time when this nation can least tolerate it?

While trade in other sectors has suffered, agriculture has historically contributed a net surplus to our trade balance. USDA estimates that the 1983-84 positive trade balance in agriculture will be $20.5 billion.

Yet agricultural export marketing is a highly competitive business. An export-sensitive sector such as agriculture, which sells overseas the products from 2 of every 5 acres, would be particularly damaged by the cost and disruption of expanded cargo preference.

### NO ASSURANCE OF A SECURE, COMPETITIVE FLEET

Proponents of cargo preference contend that we should maintain and protect the U.S. merchant marine fleet for improved national security. We in agriculture have a stake in a secure, competitive, and modern U.S. shipping fleet. However, the track record of our current cargo preference program does not suggest that expanded cargo preference would achieve these worthwhile goals.

The military usefulness of many of the vehicles now carrying government preference shipments is highly questionable. News accounts have described the loss at sea of old U.S. vessels carrying preference cargoes. What military purpose is served by keeping in use such unsafe, barely seaworthy vessels? Although the program is justified for national defense reasons, there is no requirement that U.S. vessels carrying preference cargo be capable of serving as a defense auxiliary.

For years the U.S government has been providing aid in various forms to the maritime industry, but the U.S. Merchant fleet is still not cost-competitive or modern compared to commercial maritime fleets of other nations. Put simply, cargo preference subsidies have not led to a revitalized, efficient U.S. commercial bulk fleet capable of adequate military support. If cargo preference has not worked, why expand it?

By guaranteeing a market for the U.S. commercial bulk fleet, the government would remove the incentive to compete for cargo with foreign flag vessels. Such protection will actually stymie increased efficiency, modernization, and competitiveness.

The comercial needs of the United States are best served by the most economically efficient carriers, regardless of flag of registry. If the U.S. government is going to provide additional incentives to modernize or improve our vessels, it should be done directly in a way that does not disrupt trade, and does not come, at the very least, out of USDA's budget.

In summary, Mr. Chairman, we urge your serious consideration of the damaging effect of commercial cargo preference proposals on U.S. agriculture and the nation as a whole. An expanded cargo preference requirements would place a costly new burden on farmers, taxpayers, and the American trading economy. Instead of cargo preference, we urge you to explore other, more constructive ways to strengthen the maritime industry and we stand ready to work with you in that effort.

Senator STEVENS. Thank you very much, Mr. Brannan. Mr. Berg.

Mr. BERG. Thank you, Mr. Chairman. My name is George Berg and I am representing the American Farm Bureau Federation. We appreciate the opportunity to present our views in support of Senate Concurrent Resolution 56, the resolution expressing the sense of Congress in opposition to further expansion of cargo preference requirements.

The Farm Bureau recognizes the support we have received from Senator Jepsen and the others who have cosponsored this resolution. We are grateful for their proper concern over the inequities and inefficiencies associated with the cargo preference requirements, which have had an adverse effect on U.S. agricultural exports.

We fully support Senate Concurrent Resolution 56 and we urge that it be given favorable consideration by the Congress. In January of 1984 the elected voting delegates adopted the following policy:

> Since cargo preference requirements make U.S. farm exports less competitive in the world markets, we oppose any cargo preference legislation that applies to agricultural products.

Mr. Chairman, there are several proposals pending in Congress that would expand cargo preference by requiring use of U.S.-flag vessels to haul commercial dry and liquid bulk imports and exports.

The introduction of S. 1624, the Merchant Marine Revitalization Act of 1983 which is pending in the Merchant Marine Subcommittee, comes at the time when there is great pressure on farm income. Substantial progress has been made on controlling farm costs by reducing inflation.

However, if legislation such as S. 1624 becomes law, we estimate that it will reduce farm income by at least $1.3 billion with a potential to decrease farm income by $7.7 billion.

Farm Bureau supports market-oriented farm policy. This in essence means greater reliance on export markets and less reliance on Federal spending for farmers. If S. 1624 becomes law, this will become a major impediment to increasing the U.S. farmers share of world commodity markets. It will be another impediment to freer trade, increased economic growth, and higher standards of living.

It will invite countermeasures by the EEC and other competitors. S. 1624 if it becomes law would be yet another classic example of conflict within Government economic policy.

Another bill pending in the Senate is S. 1616, the Government Impelled Cargo Act of 1983. Farm Bureau testified in opposition to a similar bill in the House last year. The major impetus of this legislation would be to provide a program of Government assistance for U.S. merchant fleet, U.S. merchant seamen, and the U.S. shipbuilding industry.

Since the legislation would expand the application of cargo preference still further, even to the encroachment on commercial transactions and shipments, we oppose S. 1616.

The Congress gave the Secretary of Agriculture one of the best tools at his disposal to counter the export subsidies of the European Community when it authorized the blended export credit program. S. 1616 would kill the blended interest program. The blended interest credit would simply not be utilized if cargo preference was applied to such shipments because additional ocean freight charges would far exceed the interest savings.

We would then have no way to meet the subsidized competition of the European Community which is distorting trade and agriculture commodities and products by subsidizing not only the price of their exports but also the export financing.

Another bill to expand cargo preference is S. 206 which will increase the role of the Secretary of Transportation by giving the Secretary sole responsibility for determining what Government programs are subject to section 901 of the Merchant Marine Act.

Because of the substantial impact of agricultural commodity exports on net farm income, we believe the Secretary of Agriculture should have the responsibility to determine the manner in which agricultural commodities are moved into international markets.

Public Law 480 is the basic program in which the U.S. Department of Agriculture purchases food, which we have in excess, and sends it abroad. It is the major program for providing outright donations of food to alleviate famine and to encourage economic development.

The U.S.-bulk fleet needs agricultural exports, including Soviet grain purchases, and the Department most responsible for these export programs is the Department of Agriculture.

Therefore, we oppose legislation that would grant the Secretary of Transportation the sole responsibility for determining and designating those programs which are subject to section 901 of the Merchant Marine Act.

As you know, Mr. Chairman, the administration has turned thumbs down on some of the cargo preference proposals that are pending before the Congress. And in his statement to the House Merchant Marine Subcommittee a few months ago, Harold Shear, maritime administrator said, the administration cannot support legislation which employs the mechanism of cargo reservation, a measure which distorts the free market to achieve these objectives.

Admiral Shear put the additional cost of U.S. agriculture exports alone at $1.9 billion and emphasized that this would have a dampening effect on U.S. agriculture exports which are already decreasing.

Mr. Chairman, cargo preference and other restraints on trade, such as inefficient union work rules and the export and domestic food and fiber markets are a major concern to farmers. If farmers are to become more reliant on the market and less on Government, we must be seeking ways to reduce obstacles to freer trade.

Farm Bureau would like to suggest future hearings on ways to reduce trade barriers in the farm and nonfarm sectors that are costing farmers, in terms of higher farmer input costs and lost market income opportunities.

We thank you again for the opportunity to present these views.

[The statement follows:]

### STATEMENT OF GEORGE L. BERG, JR., ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION

Farm Bureau is the largest general farm organization in the United States with a membership of 3.3 million families in 48 states and Puerto Rico. It is a voluntary, non-government organization representing farmers and ranchers who produce virtually every agricultural commodity.

We appreciate the opportunity to present our views in support of Senate Concurrent Resolution 56, the Resolution expressing the sense of Congress in opposition to further expansion of cargo preference requirements. Farm Bureau recognizes the support we have received from Senator Jepsen and the others who have co-sponsored this Resolution. We are grateful for their proper concern over the inequities and inefficiencies associated with cargo preference requirements which have had an adverse effect on U.S. agricultural exports. We fully support Senate Concurrent Resolution 56, and we urge that it be given favorable consideration by the Congress.

In January, 1984, the elected voting delegates of the member State Farm Bureaus adopted the following policy:

"Since cargo preference requirements make U.S. farm exports less competitive in world markets, we oppose any cargo preference legislation that applies to argricultural products.

"We also oppose the cargo preference provision of maritime agreements such as those with the Soviet Union and the Peoples Republic of China which require that one-third of their U.S. grain purchases be transported on U.S. flag vessels. Added costs of shipping on higher cost U.S. flag vessels discourage U.S. commodity purchases and put the United States in the position of a residual supplier."

American agriculture cannot prosper without continued growth in foreign markets. We export the harvested products from two out of every five acres of cropland because our productive capacity in agricultural crops is well beyond the ability of our domestic needs to absorb. In recent years, we have exported two-thirds of the wheat we produce, a similar percentage of rice, over half of our soybeans, a third of our grain sorghums and one-fourth of our corns. A third of our tobacco and half of our cotton go to foreign outlets.

Mr. Chairman, there are several proposals pending in Congress that would expand cargo preference by requiring use of U.S. flag vessels to haul commercial dry and liquid bulk imports and exports. The introduction of S. 1624, the Merchant Marine Revitalization Act of 1983, which is pending in the Merchant Marine Subcommittee, comes at a time when there is great pressure on farm income. Substantial progress has been made on controlling farm costs by reducing inflation. However, if legislation such as S. 1624 becomes law, we estimate that it will reduce farm income by at least $1.3 billion with the potential to decrease farm income by $7.7 billion.

S. 1624 requires all exporters and importers of bulk commodities in the foreign commerce of the U.S. to ship 5 percent of their cargoes on U.S. flag, U.S. built ships. That proportion would increase by 1 percent each year until a minimum level of 20 percent of all U.S. bulk commodities are carried on U.S. flag ships. The stated purpose of the bill is to strengthen our naitonal defense by providing a bulk fleet capable of serving as a naval and military auxiliary in time of national emergency. Another stated purpose is to revitalize our ship-building industry and to provide jobs for minority workers.

Rather than allow us to reach these objectives, cargo preference requirements would have adverse effects on the U.S. maritime and ocean freight shipping industries. Attempts to guarantee market shares and artifically maintain shipping costs without regard to economic realities of world ocean freight costs only perpetuates the American fleet's inability to compete with foreign vessels by increasing the supply and reducing the demand for U.S. ocean transportation services

The history of cargo preference shows no record of success in developing and maintaining a strategic U.S. fleet available for use in time of national emergency. If the military goal of developing a strong merchant marine fleet is a national priority, then outright subsidies for ship construction should be considered. Logically, these subsidies should come from general revenues or from the budget of the Defense Department, but the costs should not be borne by the American farmer through lost foreign markets.

Mr. Chairman, Farm Bureau supports market oriented farm policy. This in essence means greater reliance on export markets and less reliance on federal spending for farmers. If S. 1624 becomes law, this will become a major impediment to increasing the U.S. farmers' share of world commodity markets. It will be another impediment to freer trade, increased economic growth and higher living standards. It will invite counter measures by the EEC and other competitors. S. 1624, if it becomes law, would be yet another classic examples of conflict within government economic policy.

In my testimony before the Senate Commerce, Science and Transportation Subcommittee on Merchant Marine last September, I attached an economic analysis to my statement of extending cargo preference to U.S. cash export sales of agricultural commodities. The analysis was carefully prepared by the American Farm Bureau Federation's Economic Research Division. The study, which is as applicable today as it was last September, presents two alternative applications of cargo preference. The effect of a 5 percent and a 20 percent cargo preference and the financial and economic impact these requirements would impose on U.S. agriculture. The findings illustrate the costliness of cargo preference regulations and why U.S. farmers must work not only to defeat this new initiative, but also to repeal other cargo preference provisions which increase the cost of this country's food aid program.

The analysis assumed that transportation costs are likely to increase by $40 to $80 per ton for grains shipped in American flagships. Extending cargo preference requirements to agricultural trade would substantially reduce farm exports and prices. If all of the increased shipping costs associated with 5 percent cargo preference requirements were passed on to the farmer in the form of reduced exports, and if these export reductions had come during the 1982/83 crop year, the season's average price would be reduced by 9 to 13 cents per bushel for corn, 8 to 13 cents per bushel for wheat, and 16 to 24 cents per bushel for soybeans. If a 20 percent cargo preference was applied, the season's average price would be reduced by 33 to 53 cents per bushel for corn, 33 to 52 cents per bushel for wheat, and 66 to 92 cents per bushel for soybeans.

Another bill pending in the Senate is S. 1616, the Government-Impelled Cargo Act of 1983. Farm Bureau testified in opposition to a similar bill in the House last year. The major impetus of this legislation would be to provide a program of government assistance for the U.S. merchant fleet, the U.S. merchant seaman, and the U.S. shipbuilding industry. Since the legislation would expand the application of cargo preference still further, even to encroachment on commercial transactions and shipments, we oppose S. 1616.

The Department of Agriculture's commercially oriented credit and credit guarantee programs, which include the blended credit program, facilitate sales at the best terms and conditions which are available on the world markets and are not subject to P.L. 664. These programs are essential to meet competitive conditions in commercial overseas markets. Since the blended credit program began in late October 1982, over 9.7 million metric tons of commodities have been authorized for sale under the program. If cargo preference was applied to these sales, over 4.6 million metric tons would be required to move in American flag vessels. This would likely increase shipping costs by $230 to $276 million. Fortunately, the Maritime Administration has announced that cargo preference will not become a requirement for the blended credit program, otherwise the program's attractiveness to foreign buyers would be completely revoked. Current estimates provide that the blended credit program allows an affective price discount of about $4 to $6 per ton of grain. Increases in shipping costs due to cargo preference requirements would completely overshadow these discounts and no additional grain would be shipped. Another example of federal laws at cross-purposes.

The Congress gave the Secretary of Agriculture one of the best tools at his disposal, to counter the export subsidies of the European Community, when it authorized the blended interest export credit program. S. 1616 would kill the blended interest program. The blended interest export credits simply would not be utilized if cargo preference was applied to such shipments because the additional ocean freight charges would far exceed the interest savings. We would then have no way to meet the subsidized competition of the European Community which is distorting trade in agricultural commodities and products by subsidizing not only the price of their exports, but also the export financing of them.

Another bill to expand cargo preference is S. 206 which will increase the role of the Secretary of Transportation by giving the Secretary sole responsibility for determining what government programs are subject to section 901 of the Merchant Act of 1936.

Because of the substantial impact of agricultural commodity exports on net farm income, we believe the Secretary of Agriculture should have the responsibility to determine the manner in which agricultural commodities are moved into international markets. Public Law 480 is the basic program in which the U.S. Department of Agriculture purchases food, which we have in excess, and sends it abroad. It is the major program for providing outright donations of food to alleviate famine and to encourage economic development. The U.S. bulk fleet needs agricultural exports, including Soviet grain purchases, and the department most responsible for these export programs is the Department of Agriculture. Therefore, we oppose legislation that would grant the Secretary of Transportation the sole responsibility for determining and designating those programs which are subject to section 901 of the Merchant Marine Act of 1936.

As you know, Mr. Chairman, the Administration has turned thumbs down on some of the cargo preference proposals that are pending before the Congress. In a statement to the House Merchant Marine Subcommittee a few months ago, Harold E. Shear, the Maritime Administrator, said the Administration cannot support legislation which employs the mechanism of cargo reservation, a measure which distorts the free market to achieve those objectives.

Admiral Shear further stated that to require 20 percent of U.S. bulk imports and exports to move in U.S. flag vessels is estimated to be as much as $3 billion a year costilier than present freight rates using largely foreign flag vessels. Such an increase in transportation cost would boost costs to consumers and other users of such bulk imports as petroleum, residual fuel oil, iron ore, and bauxite. Export prices on coal and agricultural commodities would also be pushed up to the point that they could lose market opportunities.

Admiral Shear put the additional costs on U.S. agricultural exports alone at $1.9 billion and emphasized that this would have a dampening effect on U.S. agricultural exports which are already decreasing.

Mr. Chairman, cargo preference and other restraints on trade, such as inefficient union work rules in the export and domestic food and fiber markets, are a major concern to farmers. If farmers are to become more reliant on the market and less on government, we must be seeking ways to reduce obstacles to freer trade. Farm Bureau would like to suggest future hearings on ways to reduce trade barriers in the farm and nonfarm sectors that are costing farmers in terms of higher farmer input costs and lost market income opportunities.

We thank you for this chance to present Farm Bureau's views on this vital issue.

Senator STEVENS. Thank you, Mr. Berg. Mr. Hampton.

Mr. HAMPTON. Thank you, Mr. Chairman. I am Robert M. Hampton, here to present the views of the National Grange on Senate Concurrent Resolution 56 and I would like to say at the outset that we strongly support the arguments presented here already by this panel, which I think set out very much in detail the reasons for our concern.

I would like to just reemphasize the concern of the agricultural community today and in the past over the type of trade programs of assistance for various sectors of the economy which may indeed need some assistance but which result in being presented as something that reduces our opportunity for exports of international trade, export markets for agricultural products, and which result in farmers and the U.S. agriculture becoming the sector which bears the cost of such programs through lower farm incomes.

This has happened to us repeatedly. The most notable example, I think, have been the embargos that obviously, if they are justified, should be borne by the general public and which all too often have been born substantially by the farm community.

I have a very brief statement which I will read here. The Grange strongly supports Senate Concurrent Resolution 56 in opposition to further expansion of cargo preference requirements. In fact, we have consistently opposed cargo preference since it was enacted in 1954.

In spite of the billions of dollars which have been spent to subsidize our merchant marine since this program began, the objective of a strong fleet for national defense has not been adequately met.

We continue to believe that other incentives are required to bring about the lower operating costs and improved competitiveness which would best serve our defense needs for the commercial U.S. maritime fleet.

As Senate Concurrent Resolution 56 points out, farm and export interests, workers and consumers have already been severely penalized by cargo preference and other trade barriers. The decline in agricultural exports from a 1981 high of $44 billion to last year's $35 billion has been a major contributor to the current crunch in farm incomes.

Furthermore, losses in exports due to cargo preference has been estimated to contribute upwards of $150 million to the present national deficit crisis which threatens to again disrupt the United States and the world economies.

The National Grange applauds the initiative of Senator Jepsen and his colleagues who have cosponsored Senate Concurrent Resolution 56. This is an issue of great importance to U.S. farmers and to our Nation, and we urge Members of the Senate to give a firm endorsement to this proposal. Thank you, Mr. Chairman.

Senator STEVENS. Thank you very much. Senator Jepsen, any questions or comments?

Senator JEPSEN. None other than to thank the witnesses for appearing and testifying. Again, I think that the testimony speaks for itself. The facts are there and they are very clear. There is a long historic record documenting the facts.

Senator STEVENS. Gentlemen, we appreciate your coming and presenting your testimony. This committee, as I indicated, is going to pursue finding some way of balancing these interests out. And you have articulated your point of view very well, and I thank you very much. We will recess for a minute.

[Recess]

Senator STEVENS. Our next witness is Mr. Lee Rice.

## STATEMENT OF M. LEE RICE, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. RICE. Thank you, Mr. Chairman. I have a prepared statement which I would submit and request that the oral summary also be included in the record.

Senator STEVENS Yes, sir, Mr. Rice. We are happy to have you here today.

Mr. RICE. Thank you, sir. On numerous occasions we have testified before the Congress expressing our grave concern, not only as shipbuilders and ship repairers but as concerned citizens, that the national security is imperiled by the precipitous decline in both sealift asset availability and the capacity and capability of the shipyard mobilization base that is occurring.

We do not pretend to be unbiased in supporting the shipyard industry. We do contend, however, that we are uniquely informed about the status of our industry and the present effects that maritime policies are having upon our national security.

Our fundamental defense strategy is to avoid both nuclear and conventional war by deterring its occurrence. Deterrence is effective only when military capability and national industrial resources are maintained so that enemies believe that the probability of our success in any military undertaking is greater than the level of risk acceptable to them if we are challenged.

An important element of current military strategy is the concept of forward projection and deployment of force. The ability to provide adequate sealift to carry out deployment and resupply of military forces and to meet mobilization demands imposes a need for shipping far in excess of that which is available within naval forces or under government control.

Note that in our free society defense planners of enemies can determine with high precision the number and types of sealift vessels available to us and can determine the capability and capacity of our shipbuilding and ship repair industries as well as the potential for expansion of these assets under an emergency.

The strategy of deterrence is innately and inextricably related to the sealift and shipbuilding and ship repair capability of our Nation. These assets are rapidly dissipating and without corrective actions neither sealift, shipyard capability nor the required supporting industrial complex will be adequate to allow the execution of defense plans.

Thus, deterrence fails as an effective strategy and our adversaries at a time and place of their choosing may choose to act against our interest. We, in turn, will be unprepared to effectively counter their actions with conventional forces and are left in the posture that we must resort to the use of nuclear weapons of mass destruction.

Even if the use of nuclear weapons is attempted to be limited to local theaters, would we as a Nation be willing to initiate their use and risk escalation to a general nuclear exchange?

A strategic issue of immense import is laid before us. Having stated our views as to the problems presented with the defense requirements and the strategic dilemma before the Nation, we can turn to the role that the various forms of cargo preference play in lessening the severity of the problem.

The simple answer is that without the existence of cargo preference in its many forms, the problems become so grave that there is little choice other than the election to maintain a nationalized fleet, specifically configured and supported as a defense expenditure.

Cargo preference must be recognized as simply a system whereunder the cost of providing defense assets are funded by other than direct defense costs. This system has, of course, existed for decades.

It is also undoubtedly true that the cost is not borne equally by the citizenry. A prime example is the Jones Act, the form of cargo preference which provides the largest set of defense related maritime assets, both vessels and shipyards support, which clearly does not spread costs evenly.

As proposed in the concurrent resolution, the Nation would abandon cargo preference as a strategy for providing future maritime assets beyond those which will be provided under currently existing programs. The resolution would not allow additional preference even if the costs were borne by the General Treasury and would, therefore, not be a cost to the economy other than through lost tax revenues or as tax expenditures.

In summary, the Nation faces a problem of major proportion in determining the answer to the following question: Faced with the conclusion that past methods and reliances on commercial forces to create and sustain required maritime assets are not functional, as is easily shown, how should the Nation provide, first, sealift assets in sufficient quantity and possessing operational characteristics as determined by national security demand, and, two, shipbuilding and ship repair capability and capacity defined as essential to meet national security needs, both at lowest costs in toto?

There is no question that if this problem can be solved without using the device of cargo preference expansion, such a solution is preferable.

However, until the entire problem of providing maritime assets is resolved in an effective and enduring way, we cannot preclude any system by prejudging it to be unacceptable as a solution or as part of a solution.

We submit that the resolution should not pass, rather that a comprehensive defense related maritime policy be developed and enacted.

Thank you very much.

[The statement follows:]

## Statement of M. Lee Rice, President, Shipbuilders Council of America

I am M. Lee Rice, President of the Shipbuilders Council of America. The Shipbuilders Council of America is a trade organization representing principal shipbuilders and ship repairers and the suppliers of equipment, materials and services to these industries. I request that our full testimony as well as my verbal summary be included in the record of this Hearing.

On numerous occasions we have testified before the Congress expressing our grave concern, not only as shipbuilders and ship repairers but as concerned citizens, that the national security is imperiled by the precipitous decline in both sealift asset availability and the capacity and the capability of the shipyard mobilization base that is occurring. We do not pretend to be unbiased in supporting the shipyard industry. To do otherwise woud be untrue. We do contend, however, that we are uniquely informed about the status of our industry, and given the present circumstances of policies under which the industry must function, are able to understand and interpret the future effect of these policies upon the national security.

Our analysis of the problems which are caused by the failure of our maritime policy follows:

### THE STRATEGY OF DETERRENCE

Our fundamental defense strategy is to avoid both nuclear and conventional war by deterring its occurrence. Deterrence is effective only when military capability and national industrial resources are maintained so that enemies believe that the probability of our success in any miltary undertaking is greater than the level of risk acceptable to them.

An important element of current military strategy is the concept of forward projection and deployment of force. We plan to be able not only to defend our interests around the globe but to be able to attack the vital home facilities and advanced bases of enemies. This strategy requires a naval capability able to seize and maintain control of vital sea lanes and to provide offensive capability against the enemy far from our shores. Further, capability to deploy and support ground and air forces in undeveloped and inhospitable areas of the world as well as in developed theaters around the world is essential.

The ability to provide adequate sealift to carry out deployment and resupply of military forces and to meet mobilization demands imposes a need for shipping far in excess of that which is available within naval forces or under government control. To sustain the civilian economy during a war, sealift and shipbuilding capability substantially beyond that required to provide for and to sustain combat forces alone must also be maintained.

In our free society, defense planners of enemies can determine with high precision the number and types of sealift vessels available to us and can determine the capability and capacity of our shipbuilding and ship repair industries as well as the potential for expansion of these assets under an emergency.

It is our judgement that commercial forces can no longer be relied upon to provide either the number or the type of sealift assets, nor will such forces alone or in combination with naval procurement provide the capability or capacity of a required shipyard mobilization base. Under our current strategy, commercial assets are augmented by assets under government control. As commercial assets are depleted, the requirement for ever larger numbers and broadened types of government controlled assets rises rapidly.

Particularly where government sealift assets are in a reserve status, the breakout and readying of these assets under mobilization causes sharply increased demands for shipyard capability which will not exist. Thus, response times for mobilization become extended and planned and it may not be possible to deploy or sustain forces necessary to answer the threat.

Under present planning, Allied shipping and shipyards are relied upon extensively. The stark fact is, howver, that the fleets and shipbuilding capability of many of our NATO Allies are undergoing more rapid depletion than our own. Never before in our history have we relied entirely upon foreign shipping to supply U.S. forces in a major theater. Today, the assigned vessels to the task of supply of NATO forces made by our major Northern European Allies requires over 60 percent of their total available fleets and disregards the demands of supply of the economies of these nations which will be extensive. It is often stated that there is no shortage of vessels in the fleets of the world. Whether or not this is true, the availability of the vessels under the demands of mobilization or war during its early and critical phases is highly questionable. This issue cannot be ignored.

Further, present planning assumes that the Effective United States Controlled Fleet is fully employed to support the requirements of mobilization and an ensuing war. Yet, even with the full availability of these assets, foreign flag ships will be required to be used extensively.

If, as stated, commercial forces will not provide required sealift assets and will not sustain the shipyard mobilization base, the nation has no choice other than to provide sealift assets under alternative strategies and policies. The problem cannot be wished away. Nor can we as a nation rely heavily on foreign controlled shipping and shipbuilding assets if we are to maintain a credible defense posture.

There is no doubt that operating U.S. flag vessels are the most available class in any national emergency. It is also inevitable that large numbers of reserve vessels will be required to be called to action. Manning of both reserve vessels and operating vessels in an emergency must be provided. Thus, adequate levels of trained and available seagoing manpower must be insured. This leads to the question of the proper mix between reserve and operating vessels. If, as we assert, commercial markets will not provide the required numbers of operating vessels and thus sustain manning at adequate levels, alternate means must be created to cause or induce vessels to be operated commerically.

## EVEN IF ALL REQUIRED MILITARY ASSETS EXIST, DETERRENCE FAILS WHEN SEALIFT AND/OR SHIPYARD CAPABILITY IS LACKING

The strategy of deterrence is innately and inextricably related to the sealift and shipbuilding and ship repair capability of our nation. These assets are rapidly dissipating and without corrective actions neither sealift, shipyard capability nor the required supporting industrial complex will be adequate to allow the execution of defense plans. Thus, deterrence fails as an effective strategy and our adversaries, at time and place of their choosing, may choose to act against our interests. We, in turn, will be unprepared to effectively counter their actions with conventional forces and are left in the posture that we must resort to the use of nuclear weapons of mass destruction. Even if the use of nuclear weapons is attempted to be limited to local theaters, will we be willing to initiate their use and risk escalation to general nuclear exchange? A strategic issue of immense import is laid before us.

Having stated our views as to the problems presented by the defense requirements and strategic dilemma before the nation, we can turn to the question of the role that the various forms of cargo preference play in lessening the severity of the problem. The simple answer is that without the existence of cargo preference in its many forms, the problem becomes so grave that there is little choice other than the election of a nationalized fleet specifically configured and supported as a defense expenditure. Cargo preference must be recognized as simply a system whereunder the cost of providing defense assets are funded by other than direct defense costs. This system has, of course, existed for decades. It is also undoubtably true that the cost is not borne equally by the citizenry. A prime example is the Jones Act, the form of cargo preference which provides the largest set of defense related maritime assets, both vessels and shipyard support, which clearly does not spread costs evenly.

As proposed in the Concurrent Resolution, the nation would abandon cargo preference as a strategy for providing future maritime assets beyond those which will be provided under currently existing programs. The Resolution would not allow additional preference even if the cost were borne by the general treasury and would not be a cost to the economy other than through lost tax revenues. This is the system which we have proposed as an acceptably efficient approach toward solving the maritime problem through the use of cargo preference directed to bulk and neo-bulk import and export cargos.

Further, the Resolution would not allow a shift in the forms of cargo preference which would have the effect of more broadly and equitably distributing the costs of providing maritime assets throughout the nation.

In summary, the nation faces a problem of major proportion in determining the answer to the following question.

Faced with the conclusion that past methods and reliances on commercial forces to create and sustain required maritime assets are not functional, how should the nation provide (1) sealift assets in sufficient quantity and possessing operational characteristics as determined by national security demand and (2) shipbuilding and ship repair capability and capacity defined as essential to meet national security needs—both at lowest cost in toto?

There is no question that if this problem can be solved without using the device of cargo preference expansion, such a solution is preferable. However, until the entire problem of providing maritime assets is resolved in an effective and enduring way, we cannot preclude any system by prejudging it to be unacceptable as a solution or as part of a solution. We submit that the Resolution should not pass and that a comprehensive, defense-related maritime policy be drafted in a manner which places its burden on the Federal Government, not on farmers, miners, shippers, shipbuilders or their employees.

Senator STEVENS. Thank you very much, Mr. Rice. I agree with you. The next witness is Mr. Frank Pecquex, legislative director of the Seafarer's International Union.

## STATEMENT OF FRANK PECQUEX, LEGISLATIVE DIRECTOR, SEAFARER'S INTERNATIONAL UNION OF NORTH AMERICA, AFL-CIO

Mr. PECQUEX. Good morning, Mr. Chairman. I would like to state that Frank's absence here is necessitated by collective bargaining negotiations out of town, but you know his interest in this important subject and he certainly would have liked to have been here.

We have a statement that has been submitted for the record. I would like to read the summary remarks and also make some verbal comments.

My name is Frank Pecquex. I am representing the Maritime Trades Department and also the Seafarer's Internationl Union of North America. In the view of the Maritime Trades Department, Senate Concurrent Resolution 56 is counterproductive and would act to undermine the U.S. maritime industry.

We can fully appreciate the pressures which prompted the backers of this resolution to offer it in the Senate. Like the agricultural industry, the maritime industry is fighting for survival.

We do not, however, believe that either industry's chances for survival are enhanced by this proposal. Surely the American people cannot benefit when two industries so vital to the economy and national security are opposing each other on what should be common ground.

The forces which are compressing the development of both sectors are largely external and are results of political decisions on the part of foreign governments, not decisions made in the marketplace.

Therefore, we believe that only adequately funded, cost effective, properly run national policies which promote both industries will solve the problem. The tools of free enterprise will not readjust the machinery built by foreign subsidy and promotional policies.

The agricultural industry confronts those policies in the export sector and witness the harmful results. The maritime industry confronts them in the import sector as well and the economic damage is thus doubled.

It is no secret that the shipping industry is still in deep recession. Senate Concurrent Resolution 56 would weaken one of the few remaining pillars of Federal support at the time when the industry's economic burden is already unbearable.

I would like to just draw attention to the resolution itself, and on page 1 the advocates of the resolution make an argument that this resolution is designed to protect the interest of 1 out of 8 industrial workers and 1 out of 20 agricultural workers who are engaged in the export trade.

At the same time on page 2 it draws attention to trade barriers of any kind as being harmful to the entire national economy. Now, while this resolution is corrected at the maritime industry, one wonders if next year somebody could come in and make a similar argument that tariffs and quotas on foreign produced farming equipment or barbed wire is not in the best interest of the agricultural export trade.

And if that is the case, then 1 of these 7 out of 8 workers who are engaged in the industrial trade, and 17 out of 18 American workers who are involved in the production of goods for domestic consumption only, would Senate Concurrent Resolution 56 jeopardize their livelihood and further set the interests of a part against the concerns and benefits of the whole?

Earlier in today's hearing several comments were made about the use of older vessels such as the SS *Poet*. We had the unfortunate opportunity of representing the unlicensed crew members aboard the SS *Poet*. I had the personal privilege of knowing several of those crew members who went down in the Atlantic.

We would no longer want to sail those types of ships, vessels that are 30, 35 years of age than perhaps farmers would want to go back to farming with implements pulled by ox, oxen or by horses. Neither of us can compete in the international market if we adopt such antiquated efforts.

We urge that full consideration be given to some sort of Government support. It need not necessarily be cargo. There are other ways one can do it.

Mr. Chairman, your support for a tax credit that is contained in the cargo preference legislation of the competitive shipping and Shipbuilding Act of 1984 is one such measure that might be an indirect subsidy that might eliminate the cost differential between American and foreign flag carriers at no cost to anybody, and with many benefits to the maritime industry.

I would also like to point out that over the many years that the SIU has been involved in Washington-based activities we have been unable to uncover any incident when the American maritime industry opposed a program needed by any other domestic industry that must compete in the international arena against highly subsidized protected foreign competition.

This holds true whether it is in other segments of our own industry, such as the shipbuilding component or in such diverse industries as agriculture. And while we may not have lobbied actively in support of industries that are far afield from our own main interest, we have understood the need for each industry to seek Government support whether it be in the form of price supports, tariffs, subsidy or quotas, to maintain and expend either their domestic or foreign market share.

Although we are encouraged by the previous witnesses' general comments in support of maintenance of a domestic maritime industry, we want to underscore our opposition to Senate Concurrent Resolution 56 because it is counterproductive and will send the wrong message to policymakers within the executive and legislative branches who are obligated to decide our fate in the years ahead.

Instead of perhaps sitting here at a table in an adversarial sort of position as we often to, Frank Drozak has asked me to extend an invitation through your good offices, Mr. Chairman, to establish a dialog with shippers and with the industry alike so that we can perhaps iron out a concrete policy that will set us both on the path of trying to work out something that should be our mutual goal, and that is to develop further exports and develop further U.S.-flag carriers of those exports. I thank you, Mr. Chairman.

[The statement follows:]

## STATEMENT OF FRANK DROZAK, PRESIDENT, MARITIME TRADES DEPARTMENT, AFL-CIO

Mr. Chairman and members of the subcommittee, my name is Frank Drozak. I am President of the Maritime Trades Department, which is composed of 43 affiliated unions of the AFL-CIO totaling over eight million workers. I am also President of the Seafarers International Union of North America. I would like to thank you for the opportunity to express our deep concern regarding Senate Concurrent Resolution 56.

The U.S. maritime industry is today, suffering from a depressed world market and under assault from a heavily fortified network of foreign maritime subsidy and promotional policies. That network is not based on a concept of free trade and is impossible to breach without help from our own government. Therefore, we can fully appreciate the similar problems faced by the nation's equally important and equally ailing, agricultural industry.

Like the U.S. agricultural industry, the U.S.-flag fleet is essential for a healthy economy and a strong national defense. Arguments to the contrary often emphasize short-term costs rather than long-term national security. We are sensitive to cost considerations, but we urge that all the costs be measured. Our industry is vigorously seeking ways to lower costs to the shipper and much progress has been made. All economic experience tells us that volume reduces per-unit costs. If the U.S.-flag fleet carried the "substantial portion" of U.S. trade mandated by the Merchant Marine Act of 1938, the downward pressure on U.S.-flag shipping rates would be accelerated. We must however, also calculate the long-term costs to the Nation surrounding the wholesale abandonment of the essential maritime industry. When those factors are weighed in the balance, we believe the case for active public and private sector support for the Nation's vanishing merchant marine is indisputable.

The shrinking of the United States merchant fleet has been particularly disastrous for the liquid- and dry-bulk portions of the fleet. In 1950, the United States carried 42 percent of its foreign bulk commerce in U.S.-flag vessels. The total now hovers around four percent, with the liquid-bulk amount under four percent and the dry-bulk amount down below two percent. As recently as 1970, our U.S.-flag bulk fleet engaged in international commerce consisted of 81 vessels. Today, that fleet has shrunk below 40 ships. In a recent one-year period, there were four times more Soviet dry-bulk vessels carrying cargo to and from the United States than there were U.S.-flag dry-bulk vessels. This is obviously not because the Soviets believe in free enterprise. Rather, it is because the Soviets are smart enough to see the advantages of a strong merchant fleet.

The uneven enforcement of impelled cargo rules by various federal agencies is well documented. The New Zealand butter and Jamaican bauxite shipments and past problems associated with the filling of the Strategic Petroleum Reserve, are proof of the need for proper enforcement which closes the loopholes through which U.S. government-impelled cargoes have been shipped on foreign-flag vessels. Sometimes a loophole is not even necessary. A recent memorandum from the maritime Administration to the Department of Agriculture reveals that despite the Department of Transporation's belief that blended-credit shipments are covered by impelled cargo laws, the Department of Agriculture will be allowed to violate the law without consequence. When short-term cost considerations dictate long-term transportation policies and permit violations of the law, national security is damaged and the integrity of the governing process is diminished.

It must be remembered, that the recent subsidized wheat shipments to Egypt (which were covered by cargo preference laws) were intended as a warning to foreign governments not to harm prospects for U.S. agricultural exports, by unfarily subsidizing their own. The current lack of enforcement of government-impelled cargo laws, and proposals such as this, have the opposite effect in the maritime sector.

We have had assurances from the Administration, that such proposals would not be a factor in maritime policy. On October 16, 1981, speaking to the Propeller Club, President Reagan's first Secretary of Transportation, Drew Lewis addressed issues which are familiar to both the agricultural and maritime industries, when he said:

"One example is our resolve to assist the maritime industry in meeting the challenges created by cargo policies of other nations. When governments act to discriminate against American flag carriers this is not fee trade. We support free trade, but it must be fair trade.

"Realism and economic self-interest compels us to recognize that the world of internal shipping is far from free. A web of restrictions—both visible and invisible—seriously impedes the efforts of U.S. carriers to generate the cargo required just to stay in business. In response to this situation, the United States has some modest requirements reserving cargo for our own vessels. In view of the business adversities mentioned it is questionable whether they are sufficient. It is quite clear, however, that these existing laws are vital to our survival in the international arena. Be assured that we will vigorously enforce them."

The same logic is evident when the focus is on the trade problems confronting the farm community. Governor Ted Schwinden of Montana, then Chairman of the Agriculture Committee of the Governors Conference, wrote recently in the Washington Post:

"Policymakers must recognize that this nation's farm difficulties are related less to philosophical considerations at home than to politics and policies around the world.

"It's tough to compete with countries like Canada, Australia and Argentina, which seem willing to pay whatever price is necessary in the form of taxpayer-financial subsidies to sell their agricultural goods."

Exactly what Governor Schwinden and Secretary Lewis described can be found in one example. Much publicity has been generated by the trade frictions between Japan and the United States. Among the most vocal critics of Japanese policy has been the American tobacco industry. They have complained that the restrictive trade practices of the Japan Tobacco and Salt Monopoly (JTS) have limited U.S. sales to Japan. Gone almost unnoticed, however, is the JTS refusal to use anything but Japanese-flag carriers for tobacco imports. A report issued recently by the U.S. Chamber of Commerce covering this issue stated that despite "successful trial shipments by two American-flag carriers, no actual share or indication of some regular carriage has been established." Unlike the U.S. agricultural industry, however, the U.S. maritime industry must deal with non-market restrictions on U.S.-flag carriage of imports as well as exports. Despite the high level of imports of Japanese cars into the United States, U.S.-flag carriers cannot acquire any of those cargos. For instance, a U.S.-flag roll on/roll off vessel would carry autos on a return voyage to the United States. That vessel however, has to pay a measurement fee that Japenese-pure-car-carriers are exempt from. Thus, any resulting rate differential is based, at least in part, on Japanese-flag advantages and not higher U.S.-flag costs. These examples have counterparts in commercial relationships between the United States and virtually all its major trading partners.

Proposals such as Senate Concurrent Resolution 56, are not the kind which will inspire the investor confidence the maritime industry needs. There is only one way to get the kind of high-tech U.S.-flag fleet that will minimize shipper costs. Investors must know that the maritime industry will be provided the same enthusiastic government support that other industrial sectors, ask and receive. for themselves.

If a proposal was made to lock-in existing farm subsidies without recourse to change in the future, there would be a noticeable absence of agricultural support for such a measure and rightfully so. Such a lock-in would not permit even a modest readjustment in the future in response to ever changing conditions worldwide. Like the farm community, the American merchant marine cannot afford such a constraint. The U.S. maritime industry is suffering from what Maritime Administrator Harold Shear, has called "the worst shipping recession in fifty years." A proposal such as the one being discussed today, will add greatly to the staggering consequences of that recession. Therefore, the Maritime Trades Department respectfully urges rejection of counterproductive proposals such as Senate Concurrent Resolution 56.

Senator STEVENS. Thank you very much. We did initiate such a dialog earlier this year. Because of being a Presidential year we put it aside, but we are going to start that dialog again early next year, if not later this year once the campaign, the election is over.

But I do think it is necessary to pursue such a dialog as you have indicated. I do appreciate your coming to be with us.

Mr. PECQUEX. Thank you very much.

Senator STEVENS. Thank you very much. Now we have a panel of Adm. James Holloway, who is president of the Council of American-Flag Ship Operators, accompanied by Mr. Albert May, executive vice president of the Council of American-Flag Ship Operators.

And Mr. Michael Klebanoff, chairman of the board of OMI Corp., president of the American Maritime Association, accompanied by Mr. Joseph Klausner, counsel for the American Maritime Association. Gentlemen.

## STATEMENTS OF ADM. JAMES L. HOLLOWAY III, PRESIDENT, COUNCIL OF AMERICAN-FLAG SHIP OPERATORS, ACCOMPANIED BY ALBERT E. MAY, EXECUTIVE VICE PRESIDENT; AND MICHAEL KLEBANOFF, PRESIDENT, AMERICAN MARITIME ASSOCIATION, ACCOMPANIED BY JOSEPH A. KLAUSNER, COUNSEL

Admiral HOLLOWAY. Thank you, Mr. Chairman. I am Admiral Holloway, the president of the Council of American-Flag Ship Operators. We have submitted a statement for the record, and I would like to read a much briefer statement for the record, if I may, sir.

Senator STEVENS. Proceed, Admiral.

Admiral HOLLOWAY. The members of the Council of American-Flag Ship Operators own and operate a fleet of 145 general cargo, common carrier liner type merchant ships. These vessels include container ships, combination ships, RO-RO's, breakbulk, and barge carriers.

They employ approximately 10,000 U.S. merchant seamen and serve approximately 1,000 ports on five continents in the carriage of our ocean borne trade.

Senate Concurrent Resolution 56 may be read by some to be aimed at proposals for the increased use of U.S.-flag vessels for the ocean transportation of commercial bulk commodities in the U.S. foreign commerce.

CASO is, however, concerned that the resolution may be read more broadly and viewed as an attack on longstanding U.S. law and policy for the reservation of certain cargoes for transportation on U.S.-flag vessels.

The main justification for support of a U.S.-flag merchant marine is on the basis of its national utility as the strategic sealift force in time of war or national emergency. Its capacity to carry out its defense responsibilities for strategic sealift is today marginal at best and most probably inadequate, and that is according to the Department of Defense.

The decline of our commercial fleet has been continuous over the last several decades in spite of support programs such as construction differential subsidy, operating differential subsidy, capital construction funds, title XI guarantees, as well as the reservation of 50 percent of government impelled cargoes.

However, these programs are collectively responsible for the fact that the U.S. commercial fleet survives today. The liners which are the healthiest part of the fleet today are carrying about 27 percent of the U.S. general ocean cargo.

The regulatory reforms included in the Shipping Act of 1984 will contribute toward the economic recovery of the U.S.-flag merchant marine by enabling it to compete on a more equal basis with its foreign flag counterparts.

But regulatory reform alone cannot produce an economically viable national merchant marine engaged in foreign trades. A full recovery is not possible without a clearly defined and positive national cargo policy.

All other nations with large mercantile fleets support their merchant marines with national policies which reserve either by law or by tacit understanding a major share of their foreign trade to their own flag shipping.

We in the United States must cease further erosion of the existing cargo preference laws and then develop and support a maritime cargo policy which through various measures, such as cargo reservation, bilateral trade agreements, and tax incentives just as examples, will generate the same national support for U.S.-flag merchant marine as that enjoyed by our competition in the foreign trade.

U.S.-flag preference for government impelled cargoes is absolutely essential for our liner operators. First, it puts them in a more nearly competitive parity with their foreign flag competitors who generally carry all or nearly all of their own government cargoes.

Second, these cargoes on our liners act as seed cargo making possible regularly scheduled sailings of U.S.-flag vessels on fixed routes to parts of the world where this would otherwise not be possible because it would be economically infeasible.

CASO believes that ocean cargoes generated by government funds and programs should properly be the subject to the cargo preference requirements of Public Law 664. Up to now the problem has been one of implementation in the face of continuing efforts to circumvent the law.

But CASO is opposed to Senate Concurrent Resolution 56 because of its blanket prohibition to any further expansion of cargo preference regardless of its potential character or merit. It seems to us that a much more reasonable approach would be to separately judge each future legislative proposal having cargo preference implications, considering the specific merits of each through the process of individual congressional hearings, to determine if that proposed legislation is or is not in the best national interest.

Finally, we think this resolution could, through subjective interpretation, jeopardize programs generated under existing laws.

Thank you, Mr. Chairman.

[The statement follows:]

## STATEMENT OF ADM. J.L. HOLLOWAY III, PRESIDENT, COUNCIL OF AMERICAN-FLAG SHIP OPERATORS

Good morning Mr. Chairman and members of the committee, I am Admiral James L. Holloway III, U.S. Navy (Retired), President of the Council of American-Flag Ship Operators (CASO). Accompanying me today is Albert E. May, Esq., Executive Vice President and General Counsel of CASO. I am pleased to be here, on behalf of the members of CASO, to discuss with you Senate Concurrent Resolution Number 56. Our members own and operate a fleet of 145 general cargo, common carrier liner-type merchant ships. These vessels include container ships, combination ships, RO-ROs, breakbulk and barge-carriers which employ approximately 10,000 United States merchant seamen and serve hundreds of ports on 5 continents in the carriage of U.S. ocean borne trade.

S. Con. Res. 56 may be read by some to be aimed at proposals for the increased use of U.S. flag vessels for the ocean transportation of commercial bulk commodities in the U.S. foreign commerce. As CASO represents only liner operators in the foreign commerce, we will defer to those directly affected for comment on issues affecting solely bulk carriers. We are, however, concerned that the resolution may also be read more broadly and, specifically, with the fact that it may be viewed as an attack on long standing U.S. law and policy requiring movement of a portion of government cargo on U.S. flag vessels.

This nation needs a strong merchant marine. That merchant marine, in order to be healthy, requires cargoes. It is time to put an end to the continued sniping at the various statutory preference programs and give them the support they deserve and the Reagan Administration promised.

The main justification for support of a U.S. flag merchant marine is its utility as the strategic sealift force in times of war or national emergency. There is also an economic justification but it is less well defined. On the other hand, the military necessity for a U.S. flag merchant fleet for sealift purposes is clearly defined and is not disputed by any informed person in a position of responsibility.

The capacity of U.S. flag shipping to fulfill the sealift requirements of our national military strategy is marginal today and projected to be inadequate in the future, according to the Department of Defense. The reason is the steady reduction in U.S. flag commercial shipping capable of carrying military cargo.

The decline of the U.S. merchant marine has been continuous over the last several decades in spite of support progams such as construction differential subsidy (CDS), operating differential subsidy (ODS), capital construction funds (CCF), Title XI guarantees, and reservation of 50 percent of government impelled cargoes.

Although these measures have not been sufficient to reverse the downward trend of the American merchant marine, it is important to understand that collectively they are responsible for the fact that the U.S. merchant marine survives today. Most of these provisions have tended to benefit the liner fleet, which currently is the healthiest sector of the industry, carrying about 27 percent of our foreign liner trade.

The enactment of the Shipping Act of 1984 marked a major milestone for the U.S. merchant marine and represented the culmination of seven years of effort on the part of the industry, the Congress, and three Administrations. The regulatory reforms included in this Act will contribute toward the economic recovery of the U.S. flag merchant marine by enabling it to compete on a more equal basis with its foreign flag conterparts. But regulatory reform alone cannot produce an economically viable national merchant marine engaged in the foreign trades. To compete effectively, the American merchant fleet must be equipped with new, modern, fuel efficient ships, with mechanized cargo handling facilities to reduce turn-around times, and automated ship installations to improve the efficiency of crew operations. Today less than 15 percent of U.S. cargo ships are equipped with modern low speed diesels, whereas 99 percent of the Japanese commercial fleet and 97 percent of the Germans are so equipped. The U.S. merchant marine is desperately in need of modernization. 30 percent of the U.S. flag liners are over twenty years of age compared to 3 percent of Japanese and 1 percent of the German cargo ships.

A full recovery of the U.S. flag merchant marine is not possible, however, without a clearly defined and positive national cargo policy. All other nations with large merciantile fleets support their merchant marines with national policies which reserve—either by law or tacit understanding—a major share of their foreign trade to their own flag shipping. As a starting point, we in the U.S. must cease further erosion of the existing cargo preference laws, and then develop and support a maritime cargo policy, which through various measures—cargo reservation, bilateral trade agreements, and tax incentives for example—will generate the same national support for a U.S. flag merchant marine as that enjoyed by our competition.

U.S.-flag preference on government-impelled cargoes is absolutely essential for liner operators. First, it puts them more nearly on competitive parity with foreign-flag liner operators who, as we have mentioned, generally carry all or neraly all of their own govenment-impelled cargoes. Second, these cargoes act as "seed cargo" making possible the regularly scheduled sailing of U.S. flag vessels on fixed routes in parts of the world where this would otherwise not be economically feasible. This is so because where U.S. government AID cargo is moving it is frequently the majority of the outbound cargo in that trade.

There are two significant facts which must be borne in mind during discussion of these issues. First, the United States Government like any other shipper, has the right to select the companies who carry its cargo. Second, most other major maritime nations route substantially all of their government supported cargoes on their national flag vessels.

A bill, S. 206, introduced last year by Senator Inouye clearly recognized what we consider to be the heart of the current problem and would have increased the role of the Secretary of Transportation in administering Section 901 of the Merchant Marine Act, 1936. It is with Section 901, commonly referred to as Public Law 664, and its implementation, that most of the problems affecting liner operators arise. In 1954 when Public Law 664 was enacted, both Senate Report No. 1548 and House Report No. 80 stated that its coverage ". . . plugs existing loopholes . . ." and encompasses ". . . programs financed in any way by federal funds.". Public Law 664 was also intended to eliminate procurement and contracting procedures ". . . by which a high percentage of exports from this country and offshore purchases contracted for, financed, or furnished by the United States, *has been routed in foreign vessels in violation of the spirit if not the letter of existing cargo-preference legislation.*" (emphasis added).

At the time it was enacted, Public Law 664 did encompass all the programs which generated government cargo. However, forms of federal aid have continued to evolve while the statute has remained unchanged. In addition, some federal agencies have found devices by which they could circumvent the application of Public Law 664 to their programs. As early as 1962, the Senate's Committee on Commerce in its report (No. 2286) on "Implementation of the Cargo Preference Laws by the Administrative Departments and Agencies" found that "all too often . . . at least several of the administrative departments (have attempted) . . . to evade the cargo preference (law) whenever the opportunity offered.". More recently, questions have arisen whether the provisions of Public Law 664 apply to:

Government grant-in-aid programs such as the Urban Mass Transportation Act of 1964, authorizing the Urban Mass Transportation Administration of DOT to provide financial assistance to several state and local transit bodies for the purchase of foreign built urban transit equipment;

Subcontractors of Department of Defense prime contractors;

Government cash transfer programs to foreign nations such as AID grants to Israel, Turkey, and at least seven other nations for unrestricted purchases of items;

The concessional sale of government-owned butter to New Zealand;

USDA's subsidized sale of wheat flour to Egypt;

The Commodity Credit Corporation's "Blended credit" program;

Cargoes shipped with credit guarantees under the Foreign Military Sales program; and,

Cargoes shipped with financing guaranteed by the Export-Import Bank.

The members of CASO believe that all ocean cargoes generated by government funds or programs should properly be subject to the cargo preference requirements of Public Law 664. The problem, in our view, has been one of implementation. Providing the Secretary of Transportation with sole responsibility for determining and designating those programs which are properly subject to Public Law 664 and the authority to issue regulations governing their administration would we believe correct the sorts of problems we have mentioned.

In summary, the United States Merchant Marine is an essential element of our nation's economic structure, and in time of war and national emergency, a vital component of our military forces. Its role in national defense is to provide transportation for the deployment of U.S. military forces and to deliver sustaining support to our allies and our own overseas forces. According to the Joint Chiefs of Staff, ninety-five percent of the movement of materiel for U.S. military forces deploying overseas and their support and reinforcement will go by sealift.

The U.S. flag merchant marine is needed to carry our specific strategic sealift requirements for which government owned shipping is not now available—and which would be uneconomical for the government to maintain in peacetime for fluctuating contingency requirements.

Because of the military nature of the cargo and the requirements for its security, we must plan for the support for unilateral U.S. contingency or military operations to be moved in American owned and U.S. citizen crewed vessels flying the American flag.

Current Department of Defense analyses have concluded that today the capacity of the U.S. merchant marine is at best only marginally adequate to fulfill the strategic sealift requirements of our basic defense plans, and then only under favorable conditions. There is no margin for adverse circumstances.

The U.S. merchant marine becomes a critical factor in meeting our essential sealift requirements in support of our basic military planning. Consequently the U.S. flag merchant fleet cannot be permitted to further decline if we are to maintain the credibility of our national strategy of a forward defense. Earlier this year the Secretary of Defense said "The decline in U.S.-flag commercial shipping capable of carrying military unit equipment is of particular concern to DoD. We are doing much to fix the problem; however a good part of the potential gains may be eroded by accelerated commercial developments. Thus assuming that the entire U.S. merchant marine is made available to support military requirements, we may not be able to meet DoD's limited policy objectives."

A full recovery of the U.S. flag merchant marine probably is not possible without a firm U.S. cargo policy similar to that exercised by other nations with large mercantile fleets, which reserve—either by law or tacitly—a major share of their foreign trade to their own flag shipping. A U.S. cargo policy must include: Elimination of further erosion of existing cargo preference laws; incentives to ship on U.S.-flag vessels; and expansion of the number of bilateral shipping agreements to include additional nations desiring to participate with the U.S. in such arrangements.

Senator STEVENS. Thank you very much, I appreciate that. Nice to see you. Mr. Klebanoff.

Mr. KLEBANOFF. The American Maritime Association, which is an association of unsubsidized companies, operating major sectors of American bulk and liner tonnage opposes Senate Concurrent Resolution 56.

The resolution would express as the sense of Congress opposition to expanding cargo preference. Its general thrust is that agriculture would suffer from an export preference or from an import preference even on other commodities because American bulk shipping costs are alleged to be four times the world average.

We are more accustomed these days to curtailments of existing preferences than to expansions such as the resolution appears to apprehend. Still, it is not inappropriate to examine this thesis at the present time because national shipping policy is certainly at a crossroads.

The structure of Government aids to American shipping, built up over nearly 200 years, is clearly under challenge, and some of its most prominent features, particularly the differential subsidy system in foreign trade, are in the process of apparent elimination.

The existing cargo preference in foreign trade, some of which also go back to the beginnings, are also being eyed suspiciously and given the narrowest possible construction.

There is really only one question of high policy concerned in all this. In the economics of shipping, the comparative advantage does not lie with us or with Europe for that matter. The Orient is the area of the most economical vessel construction and the source of the most economical vessel operation under one or another flag of convenience.

The tremendous drop in European flag fleets and shipyards during the last 10 years is sufficient evidence of that. Without various government aids, neither they nor we would possess even the nucleus of merchant fleets.

The historic reason for having a flag fleet is national defense. This or that particular program is always open to criticism in its administration, but the conceptual question has always been how effectively it serves to obtain and maintain the instrument of defense, which it has hitherto been assumed was necessary to our security.

Has this underlying premise now been falsified? Do we no longer require a national merchant fleet, whether because allies can supply our troops or because the changing nature of war has rendered shipping obsolete?

On these questions persons in our position can but look to Congress for the answers, which is a matter of highest policy of State. We can cite the April 24 statement of Secretary Weinberger to Secretary Dole that, let alone Europe or the needs of our war economy, we do not have sufficient freighters to service even the single peripheral Persian Gulf theater in a global war, not even counting in the freighters under flag of convenience that the resolution seems to mention.

The Department of Defense has previously said the same about military useful tankers. Secretary Weinberger has invited Secretary Dole to join in considering policies to remedy these profound deficiencies.

We make one suggestion in this regard that also bears on the resolution before the committee. The great value to the Government of the historic systems of shipping aid is that they have minimized the cost of procuring this arm of defense by throwing upon commercial users in the marketplace the main, and in some important sectors the whole, costs of building and operation.

This is a saving to the Government that should not be lightly discarded. If direct subsidies are finally to be abandoned, the much older forms of preference that have regularly produced the largest constituents of the fleet, both in domestic and foreign commerce, should not be excluded from consideration.

This or that particular type may, as I have said, be open to criticism or refinement, especially on the export side, but the principle should not be forgotten in searching for solutions.

I might also add something, if I may make some comments about some of the things said by previous witnesses about particularly the age of the old ships still being used in these programs.

I think that is a matter of history right now. In the last few years about a million tons of modern bulk carriers have been built by owners without any subsidy from anybody which are relying on various cargo preference programs.

These ships have the most modern diesel engines and the cost of use of these ships to the Department of Agriculture and the AID is now approximately 2 to 1 versus 6 to 1 mentioned by previous witnesses. The numbers they used were just old numbers and don't exist any more.

Senator STEVENS. Thank you very much for that. Do any of the rest of you gentlemen have comments to make? We do appreciate your testimony and we look forward to working with you as we start the dialog that has been mentioned here later in the year. Thank you, gentlemen.

[Thereupon, at 12:05 the hearing was adjourned.]

# ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

## STATEMENT OF HON. JAMES ABDNOR, U.S. SENATOR FROM SOUTH DAKOTA

Mr. Chairman and other members of the committee, I enthusiastically support Senate Concurrent Resolution 56, a resolution which expresses a sense of Congress in opposition to further expansion of cargo preference requirements. Although I recognize the need for a strong merchant marine fleet, I don't believe the undermining of one industry to support another is justifiable. In this instance the agriculture industry, which is important to my state as well as many others, would feel drastic, negative economic effects from the imposition of expanded cargo preference laws.

Agriculture exports, which had fallen over the last few years, are on the upswing the first half of this year. For October through March of FY 1984 agriculture exports are up almost $2 billion as compared to the same period last year. If we were to authorize such preference to U.S. flagships we would experience unnecessary burdens on our agriculture community. U.S. flagships are subject to higher operating costs that foreign vessels; as a result, they have to charge higher shipping rates. These rates are usually between 100% and 300% greater than on foreign vessels. Government figures show that last year U.S. flag vessels' charges averaged $57.50 per ton (that is $1.35 per bushel for wheat and $1.53 for corn) more than foreign flat vessels for bulk shipping commodities. Therefore, if we moved 2.3 million tons of grain (the amount moved in 1980 because of cargo preference laws) the extra cost would be $132.25 million. We often see that buyers are unwilling and, in many cases, unable to pay these additional charges. Indirectly this leads, through artificially high prices, to other countries entering foreign grain markets that are now predominantly held by the U.S. If U.S. farmers were to continue shipping as they do now, without the burden of further requirements, these incentives to other agriculture producers would be eliminated and so would unecessary losses to our agriculture sector. Such legislation, as new cargo preference quotas, only would serve as new barriers to agricultural growth.

Mr. Chairman, we only have to look at the inefficiencies created by existing cargo preference requirements to see the harm that would be done. A recent study carried out by the U.S. General Accounting Office showed that the Department of Agriculture, in 1980, had to pay $58 million extra for Public Law 480 Title programs (Food for Peace) that are bound by a cargo preference of 50%; and, as revealed by the North American Export Grain Association, in 1982 freight surcharges on Public Law 480 shipments amounted to almost $314 million, which could have been used to export an additional 2.0 to 2.5 million metric tons of wheat or about 2.9 million metric tons of corn. Under proposed legislation to raise cargo preference by 5% this year and then 1% per year until 1999, the transportation costs could increase from $40 to $80 per ton. This would add to the freight differentials over the last five years of $387 million and these additional costs would cripple the agriculture sector since agricultural exports would drop and consequently net farm income would be reduced. Others joining me in opposition to these requirements have stated that the measure could reduce farm income by as much as $6.4 billion a year, eliminating 56,000 jobs in agriculture. Furthermore, the legislation would cost American consumers $29 billion a year in increased costs for gasoline and other petroleum products. By implementing further restrictions, are we pushing toward greater efficiency?

Some claim that these quotas are needed to insure an adequate merchant marine fleet; but the fact is, in the GAO report cited previously, the DOD would continue to use U.S. flagships to insure that an active U.S.-flag fleet is available in times of national emergency.

Mr. Chairman, because the agriculture economy is so important to my constituents, I feel strongly that we must oppose such legislation. The increased cost of commercially shipping U.S. goods raises costs to consumers, decreases producer income, and is accompanied by negative effects to exports. Detailed economic analysis shows that for every $100 million drop in agriculture exports, 2,440 jobs are eliminated. Is this a move we can afford as we watch an increasing number of farm foreclosures happening across our country?

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### STATEMENT OF PETER J. LUCIANO, EXECUTIVE DIRECTOR, TRANSPORTATION INSTITUTE

Mr. Chairman and members of the subcommittee, my name is Peter J. Luciano. I am the Executive Director of the Transportation Institute. The Institute is a nonprofit research and educational organization dedicated to the promotion of a strong American merchant marine. Our 174 member companies operate U.S.-flag vessels in the Nation's foreign and domestic shipping trades, including the Great Lakes and inland waterways.

We appreciate the opportunity to present our views on Senate Concurrent Resolution 56 which would express the sense of the Senate against further expansion of cargo reservation policies. The Transportation Institute strongly opposes this resolution, or any other proposal which seeks to limit cargo reservation requirements, because it is contrary to long standing government policy intended to promote a healthy American merchant marine. That policy, embodied, in Section 901 of the Merchant Marine Act of 1936, was designed to provide a cargo base to support a U.S. maritime capability and assure the continued availability of a U.S.-owned and U.S.-crewed fleet.

Our reasons for opposing Senate Concurrent Resolution 56 are many. Foremost among them is the disturbing decline of the U.S.-merchant fleet. At the end of World War II, with over 1,200 ships, the United States had the largest merchant fleet in the world. Today while the U.S. is still the largest trading nation, its fleet of approximately 500 ships ranks 10th in size in the world. Of these 500 vessels, 117 are laid up as of March 1, 1984.

This dramatic decline has come about for a number of reasons. One of the most significant is blind adherence to the notion of "free trade". It is critical to remember that U.S.-flag ships are not operating in a free market because, as seen in their actions both overt and covert—America's trading partners do not practice free trade. Instead, those nations have recognized the importance of a strong merchant marine and consequently give substantial support to their maritime industries. As a result, most foreign-flag fleets are given tax benefits, are directly subsidized or are given other preferential treatment by their governments. Sixty-eight countries include cargo preference policies as part of that support. State-owned fleets of centralized economies need not even resort to the usual market manipulations. Through specific government actions, the U.S.S.R. state-owned fleet has more than doubled in size in less than two decades. The Soviet merchant fleet has over 2,500 vessels and ranks second in the world. This is in dramatic contrast to its 23rd place ranking at the close of World War Two. While the United States relies on aging bulk cargo ships, the Soviets have added 270 newly built ships to their fleet since 1978. The Soviet Union, and other totalitarian states, are able to build up their fleets by using government funds and directives which result in the Soviet's carrying more than half their international cargoes on their ships.

It is ironic that at a time when other nations are increasing the size of their fleets, the United States subjects its fleet to the ravages and uncertainties of "free enterprise". All indications are that the United States is the only nation abiding by these rules and stubbornly resists supporting its fleet in the name of "free trade".

The United States should view cargo preference programs not as protectionist but as a means of restoring fairness and balance for its fleet and as a key reinforcement to U.S. defense efforts.

In light of ever-growing worldwide tensions, the United States must safeguard its maritime assets. The lack of a viable merchant fleet seriously compromises the ongoing build-up of the national security of this country. The U.S. is becoming increasingly dependent on foreign sources and shipping for critical strategic materials that are essential to both the Nation's defense posture and the normal functioning of the U.S. economy.

As was the case in past conflicts, contingency plans of the Department of the Navy place heavy reliance on the private merchant marine for sealift. (For example, more than 90 percent of combat and combat-related supplies needed during the Korean war and Vietnamese conflict were carried by merchant vessels.) The key to this support role, however, is dependent upon the availability of U.S.-flag ships in sufficient numbers to provide credible deterrence. Naval experts agree that there are not enough ships in the U.S. fleet today to do that task; and the situation is getting worse, not better. Cargo preference programs which safeguard a basic American capability are the only proven way to build and retain the necessary fleet.

The Falkland Island crisis reaffirmed the critical defense role of national merchant fleets. Three out of every four ships in the British flotilla that traveled to the Falkland Islands were private merchant vessels manned by civilian volunteers. Of that total, nearly half were liquid bulk tankers. The Falklands crisis raises the question as to whether or not the United States, faced with a similar situation, could respond with the speed and efficiency that the British demonstrated. As America's merchant fleet continues to age and shrink in size, that ability appears highly unlikely. In the ten years since the Vietnam conflict ended, the U.S. active private merchant marine has been reduced from 1,000 to fewer than 500 U.S. merchant vessels and, of that, less than 40 are engaged in the international liquid and dry bulk trades. At ages in excess of 25 years, those vessels are nearing the end of their useful lives.

Although some critics of cargo preference assert that such policies automatically increase transportation costs, we believe that the cost advantage of a predictable and growing U.S.-flag market is overlooked. Cargo preference provides assurances that cargo will be available for U.S. ships. Properly implemented, it can also provide incentives for the maritime industry to invest in technological improvements and undertake new management methods which translate into cost reductions. In opposing cargo preference, opponents often cite the foreign-flag/ U.S.-flag price differential of the Food for Peace Program, (P.L. 480). What they ignore is the fact that shipping requirements for the program are both small and specialized. Moreover, that differential has been declining. If the maritime industry is expanded through additional cargo preference programs, we believe the constraints which create the Food for Peace cost differential will be further reduced.

As the members of this Subcommittee know quite well, the enforcement of cargo preference laws is a constant challenge. Federal agencies must be constantly monitored to ensure that they comply with the spirit and the letter of the law. Regrettably, agencies such as the Department of Agriculture, the General Services Administration, the Agency for International Development (AID), the Department of Energy and even the Department of Transportation have actively tried to circumvent cargo preference laws.

Farm opponents of the 50 percent cargo preference requirements are quick to point to the added cost for the agricultural export programs. By the same token, they usually fail to mention the enormity of their own farm subsidies. In 1982, the cost of two agricultural export programs alone exceeded the operating subsidy for the entire U.S.-flag merchant fleet by about $141 million. Farm export subsidies, intended to aid American farmers, are deemed acceptable but cargo preference laws designed to assist and sustain the essential maritime industries are unacceptable. How can existing maritime programs, which have already been cut to minimal levels be castigated while new agricultural promotional programs are being created?

Some critics of cargo preference also assert that such policies automatically increase transportation costs. We believe these critics are overlooking the cost advantages of a predictable and growing U.S.-flag market. Applying technological improvements in ship operations and ship building, as we said earlier, would result in significant cost reductions that would be beneficial to all concerned. Clearly, the intent of expanded cargo policies is to enhance the competitive position of the U.S.-flag maritime industry without weakening any domestic export or import market.

For that reason, the Transportation Institute urges your opposition to Senate Concurrent Resolution 56. We further urge you to oppose any legislation which would weaken existing cargo preference laws as well.

The economic rationale behind the resolution is unfounded and would constitute an unfair condemnation of programs intended to advance the interests of the United States as a whole.

Thank you.

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Shipbuilders Council of America,
*Washington, DC, July 25, 1984.*

Hon. Ted Stevens,
*U.S. Senate,*
*Washington, DC.*

Dear Senator Stevens: Thank you for the recent opportunity to testify on S. Con. Res. 56 before your Merchant Marine Subcommittee. We continue to view as inappropriate this attempt to condemn in advance any extension of cargo preference requirements. No policy option should be ruled out until means are adopted to ensure the maintenance of the shipping and shipbuilding mobilization base.

We are particularly concerned about two assertions made by other witnesses in the hearing: (1) that cargo preference programs have ". . . done nothing to promote a modern, well-equipped, militarily useful fleet"; and (2) the statement that ". . . little, if any cargo is transported on U.S.-flag ships without federal assistance".

The criticism that militarily-useful vessels have not been caused to be built by cargo preference completely ignores the powerful forces which in the past have done just this under the Jones Act. Further, the critics dismiss the contribution which flows from all cargo preference to provide support for the shipyard mobilization base and provides manning billets to maintain the availability of seagoing and experienced seamen and officers. These latter elements of the purposes of cargo preference are extremely important.

The second point is fairly fundamental. The cost of transport on U.S.-flag vessels is higher than the cost of use of foreign flag. As national policy, we have decided that some cargoes should be transported on U.S.-flag vessels—to provide support to provide national security assets. What the critics should focus upon is the past methods of administration of the program. An aggressive program, administered to achieve the reverse of the critics' charges can succeed. We agree that cost is involved. This cost to provide nationally defined critical assets is intended to be born by the general treasury in the case of agricultural products. What the critics seem to desire or believe to follow is that support in the payment of higher U.S. shipping costs should be diverted to the purchase of additional agricultural products rather than defense relevant assets.

One of the principal objectives of the Merchant Marine Act of 1936 was to ensure a merchant fleet capable of carrying a substantial portion of U.S. foreign commerce. It is obvious that our privately-owned merchant fleet of some 520 ships is incapable of carrying a major portion of America's annual oceanborne foreign commerce of almost 800 million metric tons. Indeed, although the liner trade continues to carry a reasonable portion of liner cargoes, about 25 percent, the aggregate carried of all cargoes is less than four percent. That little foreign trade is carried by U.S.-flag vessels without cargo preference or operating subsidy is not caused by U.S. cargo preference programs, but by the cargo and subsidy and cost practices of other trading nations.

An October 1983 study by Congress's Office of Technology Assessment, entitled "An Assessment of Maritime trade and Technology" (OTA-0-220) stated:

"Most countries have policies which unilaterally reserve some portion of their import/export cargoes for their own national fleets. In addition, many nations, particularly developing countries that are attempting both to capture more export trade and to bolster their national-flag fleets, are pushing for the establishment of bilateral and multilateral cargo-sharing agreements."

OTA found that U.S. policy is deficient for failing to recognize this trend and meeting it:

"Many foreign governments also tend to intervene specifically on behalf of their national interests and their own carriers while the U.S. Government has usually not intervened . . . There is at present no generally accepted U.S. cargo policy because national interests are not defined and no strategies for international negotiation have been developed. Lacking such strategies, the United States has remained on the sidelines while the rest of the world defines the rules of cargo access."

Perhaps the best summation of the reason why cargo preference programs do not presently maintain a large U.S. fleet is contained in the Congressional Research Service study dated March 3, 1983 and titled "Cargo Preference Programs". That study, ironically cited by the opponents of cargo preference as support for their position, said:

"The main reason that cargo preference has not met (the objective of a merchant fleet sufficient to carry a substantial portion of U.S. foreign commerce) is that cargo preference applies only to the Government-sponsored cargoes, and the cargoes are only a small percent of U.S. foreign commerce."

While it is true that some part of the privately-owned merchant fleet is of little military usefulness, the reason is not that these vessels are sustained by cargo preference alone. The largest tonnage of nonmilitarily-useful vessels are large tankers. These vessels were built to engage in international trade or to transport Alaskan crude. There is essentially no participation of these vessels in preference programs other than filling the Strategic Petroleum Reserve. In fact, the best means of ensuring military utility may be a revision and extension of cargo preference.

Current cargo preference laws impose no standards of military usefulness in describing the eligibility of ships for the reserved trade. As a result, U.S.-flag ships, for commercial reasons, are likely to be non-self-sustaining liner vessels or tankers which are too large to perform sealift missions. Commercial markets, left undisturbed, will exacerbate this problem and further reduce the sealift capability of the merchant fleet.

As we have often argued, there is no coordination of defense needs with maritime policy. If this coordination was accomplished, we believe that a cargo preference initiative, designed to require the use of sealift-useful ships, would be a central part of the resulting policy.

Last year, the Center for Naval Analyses, an independent study group under exclusive contract to the Navy, studied the effect of HR-1242 on the U.S.-flag merchant fleet. That bill, identical in all relevant respects to S-1624 which you cosponsored with Senator Trible, reserves up to 20 percent of all U.S. bulk imports and exports to U.S.-built, U.S.-flag ships.

The CNA study found that, with minor changes, HR-1242 would result in construction and operation of about 330 ships. It said:

"Geared vessels of 35,000 DWT or less (214 out of 329, or 65 percent) are expected to account for most of the dry-bulk ships to be built. The remainder will be gearless, most of these ships falling in the 60,000-to-80,000 DWT category . . . most of these larger ships are projected to be OBO's, to maximize the backhaul of . . . crude oil . . . *The main conclusion to draw from these estimates is that, because most of the resulting new ships would be relatively small, geared, and multipurpose, their potential utility to the Navy would be very high."* (emphasis added)

The CRS study cited above reached the same conclusion about vessels supported by cargo preference programs (see p. 14). The inevitable conclusion compels revision and expansion of cargo preference programs to account for sealift needs.

Cargo preference should not be rejected out of hand on the basis of the unsound perceptions voiced by some agricultural supporters. We have frequently stated that tax credits, properly formulated, should be used to prevent the loss of markets for American exports and increased prices to American consumers. The cost of that tax credit would not likely be five percent of the current $33 billion per year farm subsidy program.

I hope that you find these views of interest and will include them in the record of the hearing.

With all best regards, I am

Sincerely,

M. LEE RICE, *President.*

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